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# UNIT

## 4

### Chapter – I

## Identification and Selection of Business Opportunity

### Importance and Approaches

### Contents

#### Chapter II

1. Identification and selection of business opportunity is a crucial task for an entrepreneur
2. There are varied approaches and routes to business opportunity identification (OI)
3. The entrepreneurs have different competencies to address OI task

**The aim of this chapter is to:**

- Put the subject in perspective
- help you understand the main approaches to OI.

**Objective:**

On completion of this chapter:

- You will appreciate the importance of opportunity identification and selection task
- You will judge your own competencies and preparedness for undertaking the task
- you will be able to judge how you should go about the OI task
- you will narrow down your choice of routes to OI
- you will understand what kind of competencies/style you possess in relation to OI task



## 1.1 Importance of Opportunity Identification and Selection

The identification of (possible) business opportunities and selection of one is the first tangible steps in the entrepreneurial journey. It paves way for other action to set up business – preparation of business plan, funding, arranging premises, equipment and other facilities. It is an important task because of the following reasons.

- Well begun is half done. If you have chosen a sound opportunity, there are greater chances of success. Your struggle will be less difficult.
- Opportunity selection – unless you change your decision before carrying out physical execution of chosen idea – is an irreversible decision. The premises, equipment, human resource, suppliers, customers and many other parameters of your business flow from the decision. In other words, its implications are huge; you cannot exit from its consequences unless you change the very idea of your business or wind it up.
- Remember, while you are independent, there are others who have a stake in your business-fund-providers, manpower, etc. Your idea selection matters because it will drive their response. For instance, you wish to manufacture a chemical but the bank on which you are dependent has unhappy experience with enterprises making the chemical. The bank will be reluctant to lend. You wish to set up a hotel in a remote area but the professional staff does not wish to stay there; it does not seem a sound idea.
- Your selection of an idea shapes your enthusiasm. You have confidence in the idea. So, you are optimistic.

## 1.2 Readiness

The identification and selection of business idea is a real-life process. The pursuit of this process requires a certain amount of preparedness on your part.

First, you need depending on the desired nature of your business – exposure to environment. In simple words, the environment may mean economy, business world, technology, society, etc. Not necessarily, all of these but some of these. You get such exposure through observation, reading, meeting right kind of persons and such other sources.

Secondly, it helps if you are in a position to access a network of knowledgeable contacts. Such contacts are a ready source for gathering ideas, information and cross checking your views.

Thirdly, you need to have capacity for practical research. Say, you hit upon an idea. What information do you need to assess how good the idea is? What are the sources for gathering such information? What are the techniques for information gathering? How do you interpret the findings of the analysis? These are questions of practical research.



How ready are you to undertake opportunity identification and selection? Why?

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### 1.3 Approaches

There are two approaches to identification of business opportunities.

- economic approach
- effectuation approach

Let us explain these

#### 1.3.1 Economic Approach

The subject of entrepreneurship, traditionally, has been a part of economics. This is why the issue of opportunity identification is analyzed from an economic angle.

Under the economic approach, the focus is on the entrepreneur. He spots or discovers a business opportunity. Such an opportunity can be a product or service. Having spotted the opportunity, the entrepreneur follows a systematic and structured approach to assess the opportunity. In other words, he carries out the following tasks

- ✓ Determination of information needs regarding the product or service
- ✓ Identification of sources of information
- ✓ Actual information gathering, analysis of information and arriving at a conclusion about the opportunity.

For instance, you notice that there is scope for producing and marketing solar lights in a rural area. You would determine information needs pertaining to market, technology and investment. A sample of information needs is given under the **Box A**.



## Box - A

### **Preliminary Information Checklist for Assessing Solar Light Business Opportunity: Illustrative list**

1. Geographical market for the enterprise
2. Number of households in the geographical market area
3. Classification of households
  - High Income
  - Middle Income
  - Low Income
4. Electricity position, in the area. Position means the following
  - Number of households which do not have electricity connection at all
  - Reliability of electricity supply
  - Number of hours for which electricity, on average, is not available
  - Months during which non – availability of electricity is acute
  - Typical hours of the day (morning, noon, evening, night) during which electricity is not available
  - Prospect of significant improvement in electricity over next five years
  - Devices/methods used by the household, in absence of electricity, for home – lighting, fan – operation and TV – operation
  - The cost of buying and operating such devices and method. Difficulties associated with such devices/methods
  - Government schemes to support acquisition and use of such devices and methods
  - Details of various Solar light technologies
  - Cost of installing and maintaining (separately) solar light, depending on the technology
  - Level of available solar light storage and cost corresponding to each level of storage.
  - Willingness of households to pay for various (expensive to inexpensive) solar lighting devices
  - Non-financial requirements for solar lighting, e.g, sun light, space
  - Solar radiation data and estimated performance of solar lights of various technologies based on such data.

This is an illustrative and partial list of information needs

The possible sources of information are

- ✓ Census
- ✓ District planning board
- ✓ Local electrical utility
- ✓ Published studies / reports on solar lighting
- ✓ State – level renewable energy development agency
- ✓ Solar light supplier companies
- ✓ Household survey

It is possible that some of the information will not be available or that you will not have the technical or financial resources to gather some information. There is the question of how much a rural household will be willing to pay for a solar light, which enables it to run two bulbs and one fan for, say, 8 hours a day. You may



not be aware of relevant techniques of market research to find an answer to this question. This is your limitation.

You may engage a research agency to look into the question of ability/willingness of a rural household to pay for solar light. Alternatively, you may make a reasonable assumption, based on available data. This, however, does not make your approach less systematic or less economic.

In the course of his work, the entrepreneur may also evaluate alternatives e.g., solar lighting technology X vs Y or selling price P vs Q.

The heart of this approach is that the business opportunity exists in itself. It is the smart or perceptive entrepreneur who spots or discovers this opportunity. If entrepreneur A does not notice it, it is likely that entrepreneur B would. The opportunity exists independent of the entrepreneur. However, it is A who has discovered it. Therefore, focus is on entrepreneur 'A'. Why is he able to notice it, while others fail? What are his competencies? What are his techniques? Under this approach, the entrepreneur quickly works out the desired result. For instance, he should produce and market one lac solar lights/year in three years, based on, say, market potential. Given such goal, he assesses and assembles essential physical, financial and human resources. The mobilization of resources, thus, follows "discovery" of (supposedly excellent) opportunity and articulation of desired goal.

The resources, by and large, are not considered a constraint.

The economic approach continues to be the dominant approach to opportunity identification. In the ensuing sections of this unit, we have largely followed economic approach because it is this approach, which requires a comprehensive study.

### **1.3.2 Effectuation Approach**

In recent years, however, there has emerged another approach to opportunity identification.

This approach is called effectuation approach. Under this approach, the entrepreneur perceives the problem or need but does not start out with a predetermined solution or business idea. In other words, he does not have a fixed product or service in mind. He makes a beginning with interest in an opportunity and a given set of resources to harness the opportunity. The thrust of his effort is on building a business around resources – physical, human, financial, policy – support, etc – available to him. However, he does not freeze resources. He engages with various stakeholders – consumers, producers, intermediaries, policy makers, funders – on the subject of his choice of business. He tries, and often succeeds, in persuading some stakeholders to add to his resources. He champions his idea; he negotiates solutions, scale, organization formats, roles, etc. It is through such a process of articulating the opportunity, mobilizing resources, advocating likely solutions and negotiating with the stakeholders that



his enterprise idea (opportunity) eventually gets crystallized. The opportunity is shaped, in this case, decisively by the resources and negotiation. Evidently, the process drives it. In other words, he begins with the seed of an idea and the seed grows into a business tree but the exact shape and size of the tree is not decided at seed stage.

The search, unlike under economic approach, is for a working and viable rather than an ideal business. Such entrepreneur does not believe in spotting a (supposedly) ready opportunity and pooling resources to harness it. He creates a business opportunity through above – mentioned process. The opportunity, evidently, is rooted into the resources at the command of the entrepreneur. The contours of the opportunity are defined by who supports the entrepreneur, how much and who does not support. It is entrepreneur driven rather than an idea driven approach.

The entrepreneurs, often, follow effectuation or “created opportunity” approach because

- Resources - human, financial, stakeholder support, physical facilities – are critical for building an enterprise. The required resources in the context of an enterprise are, sometimes, not a matter of just paying the market price and tying up a contract. The enterprise, in some cases, cannot afford the market price. In other cases, resources shy away – even if the enterprise is willing to pay market price – from working for an enterprise. (A small enterprise may not attract technician from a large company, even if willing to pay).
- The entrepreneur – stakeholder relationship is not cut and dried. It is not a “market place” setting. (An entrepreneur wishes to offer good primary education at an affordable price through his enterprise. However, many parents may have to be massively educated about what amounts to good education. There will be vested interests – the local elected representative may have a vested interest in official enrolment at the government school – which may militate against the proposed initiative).
- It is only through interaction and real negotiation with the stakeholders that workable solutions emerge.

If we look deeper into the opportunity identification process, it becomes clear that they emerge not merely because of objective conditions or creation but also because of the vision or judgment, preferences and aversions of the entrepreneur. They exist as much in the mind of the entrepreneur as in reality.

This is why some people believe that business opportunities are not discovered or created but imagined.



Let us conclude that in real life opportunity identification is a mix of discovery, creation and imagination.

#### **1.4 A Caselet: Economic vs Effectuation Approach**

The quality of primary education in government schools is a serious problem. We are presenting below how one entrepreneur utilizes economic approach, while another utilizes effectuation approach to identify opportunity.

##### **1.4.1 Economic Approach**

Sushil is a mid – career school principal having spent two decades in the field of education. He heads a school, which caters to middle class population. Primary education is a subject of particular interest to him. He is aware that 50% of the students in his city attend government run primary schools. The education at these schools is free. These schools cater to low – income groups. They are run badly – the building and furniture are broken, the teacher – pupil ratio is poor, there is rampant teacher absenteeism. He, therefore, recognizes the opportunity for a private, affordable primary school to be opened in a low – income area of the city. Once such a school stabilizes, he plans to scale up the enterprise to a chain of schools.

He runs some back – of – the – envelope calculations.

Shushil envisages rented premises in the beginning. He estimates an initial investment of Rs 25 lacs, a part of which will come from philanthropy. The recurring annual expenditure will range from Rs 40 to 50 lacs. Again, he counts on a fraction of this to be met through donations. He figures out that the school is viable at a monthly fee Rs 400 to 500. Will low income parents, having two children, spend Rs 400 or Rs 500 or per child/month?

He will like to research into the issue of parental willingness to pay for good primary education but does not know how to go about doing such research. However, intuitively, he believes that Rs 400 per month is an acceptable price. So, he envisages a school where the pupil – teacher ratio will be 20 and the fee will be Rs 400 per month.

There is a low – income locality whose population is 50,000. Based on general age – group profile of the population, it is fair to assume that 12% or 6000 persons are in 5 to 10 year (primary school) age – group. There are two government run primary schools in the area at which 1500 students are enrolled. There are three private schools in the locality and its vicinity, the quality of whose education can be called good, bad and indifferent.





Every year, 700 children in the locality enter the primary school age – group. He concludes that one fourth of school entering children are government school candidates and he can attract a good proportion of remaining 525 private school candidates. Thus, he is confident of attracting total 200 out of 700 school entering students. In course of time, the school will offer education from Class I to Class 5 and so Sushil is aiming at an eventual strength of over 1000 students.

Based on this data, Shushil concludes that he can set up an efficient and affordable private primary school.

This is an example of rational or economic approach to opportunity identification. Shushil notices a clear opportunity, gathers key information (survey), decides on the school concept, assesses its financial viability and scalability and relies upon his understanding of the domain and ability to marshal human and physical resources to deliver decent education. He makes reasonable assumption when he does not know how to address a given task, e.g, parental willingness for fee payment.

#### **1.4.2 Effectuation Approach**

Let us now turn to Sameer.

The poor quality of education at the government – run school as well as some private schools, catering to low – income population, is a concern to him. Sameer is an IT professional. He does not have any experience in education. He meets school principals, teachers, parents and researchers in order to understand the problem. He feels operating a school will be a considerable challenge – 500 children, 40 teachers and assistants, other staff of 10 persons, compliance with regulatory framework, financial management.

So, what is the way out? There are three friends / colleagues who are keen to commit two hours / day @ 5 days / week. They are competent, after some orientation, to teach math, science and language. A class of 30 appears manageable. It will be an after – school arrangement. The beginning scale will be 60 students. The premises will be rented. There will be a token fee mainly to recover the cost of rent, electricity, consumables and a fraction of manpower – cost. The students, depending on their present performance, will be divided into three batches. The focus will be on remedial, supplementary education. Sameer intends to watch and review the experience. He has got an open mind on further work. The possibilities are

- ✓ Scale up the remedial school, depending on volunteer – teacher availability and parental response to remedial schooling.
- ✓ Work out a tie – up with existing schools and organize remedial schooling on their premises with active endorsement by the schools



- ✓ Open a new primary school

The course of action will be shaped by various parameters – reaction from potential teachers, response from existing schools, parental support, capacity to hire large premises and recruit teachers / staff to establish a new school, financial support from government/voluntary organisations. Evidently, Sameer will talk to various stakeholders – volunteers, teachers, existing school authorities, parents – discuss partnerships, negotiate relationships and conclude arrangements. The final outcome cannot be prejudged. It will happen in the course of doing. This is an example of created opportunity.

1. What are the key differences between economic and effectuation approach to OI.

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2. Which approach do you prefer? Why?

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## 1.5 Routes to Opportunity Identification

Let us now turn to another dimension of opportunity identification. In practice, how do entrepreneurs recognize and select opportunities? It does not make sense for an entrepreneur, in most cases, to operate in a random manner. He needs to fix some boundary conditions, irrespective of whether he follows economic or effectuation approach. In other words, he needs to fix unit for search. The entrepreneurs utilize following three units.

### Occupational Unit

First, there is the occupational unit. A doctor may look for a business idea in healthcare area, an educationist may do in education domain. The beginning scale of the opportunity is limited, it is – somewhat – a self – employment – oriented enterprise. It can be large enterprise also say, a hospital. The opportunity is conceived around the occupational specialization.

### Structural Unit

The alternative unit is structural under which the focus is on the industry or the sector, e.g, healthcare, chemical, e-commerce, energy, etc. What are the opportunities in these sectors? The entrepreneur analyses the market,



in the wider sense of the term, for a selected sector e.g., education, and delineates opportunities. The choice of one or multiple sectors, of course, depends on the entrepreneur – his exposure, inclination, passion, network, etc.

### **Functional Unit**

The third unit is functional. It is occupation – neutral as well as sector – neutral. It relies on entrepreneurial alertness, judgment, insight, innovation, analysis, independent of (entrepreneurial) occupation or sector. The basic motivation is to establish an enterprise. There are half formed considerations at the back of the mind. The entrepreneur remains on the look out for opportunity in the course of his meetings, readings, experiences, observations, etc. Mirakle Couriers, explained under the Box is an example of functional way of spotting opportunity.

We need not treat the above three units for opportunity identification as water – tight compartments. In practice, they merge and the degree of recourse to three units varies from case to case.

## **1.6 Opportunity Identification and entrepreneurial Typologies**

On the whole, there are two types of entrepreneurs.

### Reliance on Cognitive Process

One type relies on a cognitive process – reading, writing, watching, talking, perceiving, sensing, focusing on goods/services, analyzing and assessing opportunities such an entrepreneur deliberately goes around looking for and researching business opportunities.

### Reliance on Alertness

Another type of entrepreneur possesses innate traits; he is gifted with alertness and hence he is capable of placing himself vantageably on the information flow and spotting opportunities. He is not deliberately searching and researching. But when an opportunity surfaces, he is quick to notice it and judge its value.

In opportunity identification context, there is a frequent reference to entrepreneurial alertness. An alert entrepreneur selects specific sources of information, he engages with these sources in such a way that the cues and signals concerning opportunities come to his notice quickly, conveniently and sharply.

Miracle courier is an example of reliance on alertness (**Box B**).

In real life, an entrepreneur is a mixture of both types, though he may be more of one type than the other type.



You have to reflect upon your competencies and decide, whether you are better placed to follow a cognitive approach vis-à-vis the alert approach.

## Box - B

### Mirakle Couriers

Mirakle Couriers was founded in January 2009. It was started by Dhruv Lakra who combined his education and experience in both -the business and social sectors - to come up with a for-profit social enterprise. The idea to help the deaf was triggered by the incident he experienced, while traveling on a bus in Mumbai.

Dhruv was sitting on a bus next to a young boy looking eagerly out of the window. In fact, he was not just eager but actually restless. He was looking around anxiously, seeming lost. Dhruv asked him where he was going but the boy did not respond. It took him a few seconds to realize that this boy was unable to hear or speak. He was deaf. Though the bus conductor regularly announced the stops, this boy still did not know where he was. Dhruv took out a piece of paper and wrote to him in Hindi asking him where he was going. Through the back and forth pen and paper exchange, it suddenly dawned on Dhruv how difficult life was for the deaf. Something as straightforward as a bus ride became a struggle.

It is an invisible disability. You cannot know when someone near you is deaf as there are no obvious physical attributes, and so it is ignored. It is also a silent (voiceless) disability. There is little public sympathy for the deaf, and by connection, a severe lack of government support for them in India. When it comes to employment, there are no opportunities because no one has the patience or the foresight to learn deaf language and culture.

Over the next few months, Dhruv spent time exploring the deaf culture and learning Indian sign language. He focused on a courier business because it requires a lot of visual skills but no verbal communication. The deaf are extremely good at map reading, remembering roads and buildings because they are so visually inclined.

This is how Mirakle Couriers was born.

Over the last two years, Mirakle Couriers has grown to operate in two branches in the city, employing 70 deaf employees and delivering over 65,000 shipments per month. They have won several awards including the 2009 Hellene Keller award and the 2010 National Award for the Empowerment of People With Disabilities.

The opportunity recognition, in this case, clearly was a combination of epiphany or trigger event (bus episode) and Dhruv's own previous background and further research.

Source: Mirakle Courier website



Which OI route you are likely to follow? Why?

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What type of entrepreneur are you in relation to OI?

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## Design Thinking

Design thinking or thinking outside the box is a contemporary approach to opportunity identification and selection. Its popularity has grown in recent times. The mind of most people, often, is characterized by set patterns of thinking. Such thinking flows from commonly accessed knowledge. For instance, many may believe that poor do not wish to spend on education or that the elderly wish to save money.

Design thinking, in the first place, seeks to rise above commonly held ideas. In this regard, it aims at empathizing with people for whom it wants to develop observes, interacts and researches. For example, the promoter of selco, pioneer of solar lighting for the poor, learnt early in his entrepreneurial journey, based on his interaction with his potential customers, that the poor wanted a single stop solution – buying, installation, repair and maintenance fractional rather than full payment, finance for the remaining payment – for a solar light.

Based on empathetic understanding of the needs, the thinker defines the problem or the opportunity. For example, he may define the problem of education for poor children in the following education.

- there is a desire for quality education.
- There is inadequate understanding of what quality means.
- the reference points are middle/upper class.
- there is limited capacity to pay.
- There is a limitation in terms of guiding/supervising child engagement in education and other activities at home.



Once the problem is defined, the thinker and his team organize ideating. Ideating might involve brainstorming and other structured ways of generating solutions or business ideas. The low cost sanitary napkin is a widely felt need in India. The design thinking group may come out with following ideas.

- A disposable low cost sanitary napkin with or without incinerator for disposal.
- A recyclable cloth napkin.
- The effective cost should not exceed Rs.10 per monthly cycle.
- There should be wide scale distribution of napkins.
- The napkin performance must be good.
- The target user is 14 to 35 age-group.

This is a simplified illustration of defining, the solution.

Based on such definition, there will be ideating. The ideas might mean

- an evening school for poor children
- a remedial module for poor children in the school to which they go
- a regular full fledged school for poor children
- an online education support for poor children with provision of device and connectivity.

The design thinkers choose a solution or the idea. Next, they try it out. This may entail prototyping. For instance, fabricating a physical solar water heater or a mobile library service.

The prototype needs testing. The solar water heater, the thinker learnt, does not work effectively if hot water use is staggered during the day (one person baths at 8 am and another at 2 pm) rather than concentrated and there is potential for damage from monkeys. The mobile library service provider may encounter parking/permission problem and use-indiscipline in respect of book return.

The prototyping and testing, sometimes, attracts the attention of other stakeholders – users, potential employees, investors – who contribute further thinking and enrich the idea.

### **Iodine Bindis**

There is iodine deficiency among Indians and hence there is mandatory iodization of salt. However, many families, notwithstanding regulation, do not use iodized salt. The deficiency leads to such problems as goiter, low mental development and thyroid. The problem is particularly acute with reference to women in child bearing age group.



Neelvasant Foundation, an NGO in Maharashtra, distributed iodine supplement pills among tribal women in its work-area to remove iodine deficiency. It did not work; pills were not used regularly.

It partnered with Grey – a global advertising and marketing company. As a result of collective design thinking, they came out with iodine coated bindi. The women wear a bindi everyday. The bindi releases iodine. The exact amount of iodine released through bindi is as yet being monitored. But the solution illustrates out of box thinking.

## Sum up

- It is important that you are ready for opportunity identification. The readiness means you have some exposure (observation, conversation, reading) to external environment, access to a of knowledgeable persons and capacity for practical research. You need to have some – if not all – of this.
- There are two approaches to identification – economic and effectuation. Under economic approach, the focus is on entrepreneur. He is so smart that he spots an existing opportunity and works out a business plan. Under effectuation approach, the entrepreneur perceives the problem but does not reach an ideal solution or business idea immediately. He launches a manageable enterprise, engages with stakeholders, attracts resources and support and reaches the final solution or idea through this process.
- Some entrepreneurs identify opportunity based on their occupational background (say, teacher). Others have a sector preference – light engineering, ceramic, healthcare. Still others have an open mind. They are occupation and sector neutral.
- Many entrepreneurs follow a process of observing, meeting people, reading and analyzing over a period of time. In contrast, there are entrepreneurs who are not so deliberate and systematic but their antenna goes up as soon as they spot an opportunity. In real life, entrepreneurs are a mix of these two modes of working.



# UNIT

## 4

### Chapter – II

## Opportunity Identification and Selection (OIS) Process

Contents:

- OIS entails various steps, requiring skills corresponding to each step
- All steps are not compulsory. Likewise, they are not sequential
- The steps entail considerable environment scouting, information gathering and analytical work

The aim of this chapter is to

- Impart a comprehensive and thorough understanding of OIS process.

Objectives:

On completing this chapter, you will be ready

- to initiate your own OIS process
- judge the components of process in respect of which your knowledge/competencies are either strong or weak





## 2.1 The Process

An entrepreneur may select a business opportunity through a chance event or through a natural extension of his present occupation. For example, a trader in building hardware may undertake production of such hardware. But then, everyone is not so lucky. You belong to a class of entrepreneurs to whom opportunities do not present themselves so easily. So, you need to understand the OIS process. The process is outlined under the Exhibit.

The Exhibit tells you about important steps in the process. It is not mandatory to always follow the sequence of steps Or for that matter follow all the steps. You may find an idea so exciting that you may straight-away do a pre-feasibility study for it. You may not generate other ideas at all. The purpose of the Exhibit is to highlight important landmarks on the OIS road.

Exhibit

OIS Process

The Steps

- Preparation of Personal Profile
- Development of OIS (decision-making) Framework
- Generation of Ideas
- Investigation and shortlisting of Ideas
- Opportunity Selection

### The Million-Dollar Question

You have read about the many facets of business until now. Your genuine query now is - 'what business will I set up?' Just take a look around. You find that people are consuming plastic bags for almost everything. So, you may begin to think of plastic bags. But, wait a minute. The government wants to replace plastic with paper and cloth. Perhaps you have also read that the government wants to encourage the food processing industry because it has a tremendous export potential. So you now start thinking of food processing. Then again a few residential hotels may have come up in your city and they seem to be doing well. So you now begin to consider a hotel project. Just then your friend tells you that the building hardware market is booming and so that too gets on your list of ideas.

You eventually face a bewildering variety of ideas, and end up feeling confused. You are just not able to decide on anything. Now let us discuss how you should begin, systematically.



## 2.2 Look at Yourself

You are the one who is to establish and manage the business. You have strengths, limitations and a certain attitude to business. So, take a good look at yourself. There are many questions for which you must have answers before you look out for an opportunity. “Getting to Know Yourself” Questionnaire lists these questions. Remember, answers to these questions are meant for your clarity; you do not have to share answers with others. The purpose of these questions is to help you decide what kind of business will best suit you. What is important is that you look for the `right kind' of business, rather than `any' business.

### Questionnaire

#### Getting to Know Yourself

1. Name
2. Education
3. Present occupation
4. Work-experience
5. Do you have any exposure to industry or business? Exposure can be gained by working in any industry or business, or from information gathered from discussion with family, friends colleagues or from books, journals, internet or such other sources.
6. Present annual income from various sources. List it source-wise.
7. Do you possess any special technical skills or know-how? Write details.
8. How much money are you willing to invest in the business?
9. Where do you want to set up your enterprise?
10. Do you have any preference for a particular sector e.g. food processing, healthcare, e-commerce, tourism? If yes, why? List these sectors and reasons
11. Do you wish to avoid any particular industry sectors? If yes, why? List these sectors and reasons
12. How profitable would you wish your enterprise to be? Read the Box A before you answer this question.  
How quickly do you expect the project to make profits?
14. What help/problems do you expect from your family members?
15. Why do you want to set up the enterprise? Read Box `B' before you answer this question.
16. How good are you at the following? (you can add)

	Very Good	Good	Not Good	Poor
1. Capacity for physical hardship				
2. Marketing				
3. Production/Operation				



4. Financial management 5. Problem-solving* 6. Network of contacts in business, industry, government and financial sector				
<ul style="list-style-type: none"><li>• Problem-solving means an ability to solve a variety of problems like technical expert or persuading a supervisor who wants to quit the job to stay with you or dealing with an aggrieved customer, etc.</li></ul> <p>17. What is your attitude to 'risk' in business? Read Box `C' before you answer the question.</p> <p>18. Do you already have any business ideas in mind? Give details.</p> <p>19. Any other points about yourself, which you think could be important in order to establish your own business.</p>				



## Box - A

### **Making Profits - To Each His Own**

Let us assume that you have made an investment of Rs. 15 lac in a particular business. Your net profit during the first five years is expected to average Rs. 3.30 lac per year. This means a 22% return on your investment. Is this profitable? Read the following conversation among four friends to learn about it.

Samir: I know of a viable and sound private company which gives an interest @ 12% per

annum on your investment. I shall not consider any business investment which gives a

return of less than 24% per annum.

Mahesh: We are merely looking at the rate of return for the first five years. We have to look

beyond it. It might improve. A bank gives an interest on fixed deposit @ 6% per

annum. So, 22% is no bad at all. If the business is sound, it would not be a risky proposal and the return would be fairly good.

Anil: My father runs a factory which manufactures components required by a vehicle manufacturing company. The factory has been in operation for the last eight years. My

father had made an initial investment of Rs. 50 lac. His profit varies from Rs. 10 to

12 lac per year. So, I do think 22% is a good return, considering these are initial years.

Maulik: How much will the business fetch, if I sell it after 5 years? With an initial investment of Rs. 15 lac, if it can be sold for Rs. 40 lac at the end of five years, then I would not worry much about the annual profit - whether it is Rs. 3.3 lac per year or half of it.

What have you gathered from the above conversation?



Match it with what is explained below.

The conversation brings out two aspects:

First - to each his own. There is no fixed definition of profitability. There is a range of expectations / perceptions about what is profitable. You need to follow your expectation, unless it is very unrealistic, e.g., 50% return on investment annually.

Second - Maulik seems to be interested not in business, but in speculation. Even such apparently speculative pursuits as investment in stock market or real estate – if made wisely – may not yield the return, which Maulik desires. If you are really interested in business, you should not give much importance to appreciation of your investment. You should rather focus on how much it will earn.

What are your profitability expectations? Write down in two or three lines.

### Box - B

#### **The Need for Business**

Why do you want to set up a business? Is it because:

- You have surplus money
- You want to be rich
- You will not get a decent job and hence have no option but to set up a business
- You are tired of working for others
- You have plenty of time and would like to do something meaningful e.g., ( a middle-aged housewife, a retired army officer may think so)
- You may want to prove that you can achieve what many others have achieved
- You just want to be your own boss since you dislike working for others
- You want to establish a business so that your children can settle down easily into work life.
- Any other (specify)



These are possibilities. There may be several other reasons for wanting to set up a business. The purpose of telling all this is to help you understand your own motives. If you want to get rich quickly, a business, which will take a long time to generate profit, is a wrong choice for you. If the idea is gainful occupation, then you may be satisfied with a low profit. On the other hand, if you are not capable of getting a job, business is a compulsion rather than a choice (which means your expectations from business need to be modest).

It is important that you analyze your reasons in order to understand what kind of business you should look for and how quickly you should choose a business idea.

What are your reasons for wanting to set up a business? Write a few lines.

### Box - C

**LET US TOSS A COIN  
VERSUS  
I WANT TO PLAY IT SAFE**

Meet Mr. Mohan who is setting up a factory. He hopes the factory will work for two shifts per day, which would total 4800 hours in a year. He figures that the business will begin to make profit only after 2400 working hours (50% of 4800 hours) and that there will be neither profit nor loss at 2400 working hours. There will only be loss, if the factory operates for less than 2400 hours. So, 2400 hours or 50% capacity-utilization is the "breakeven point". In other words, point above which the factory would make profit but below which it would make a loss. He expects the factory to work at least at 80% capacity utilisation.

Rahul, a friend of Mohan, feels that 50% is a rather high breakeven point, since many things can go wrong in a business. Rahul thinks that a breakeven point higher than 35% is risky and hence an unacceptable idea.

Jagat, another friend, however does not agree. He feels that a breakeven point up to 60% is safe. A businessman worth his salt should be able to achieve it.

So, the attitude to risk varies from one businessman to another.

What is your own attitude to risk? What is your idea of acceptable breakeven point?



## 2.3 The Caselet

We will introduce you to Ramesh Gupta. He had several project ideas in mind, and could have chosen one from amongst these. But he did not do so. He took a good, long look at himself. This means that he thought about his interests, considered his background and qualifications, the support of family members, financial resources and other such related aspects before he chose a project (**Box D**). You too should know yourself and understand why it is vitally important to do so, once you have answered questions under getting to know yourself that follows this.

### Box - D

#### Ramesh Gupta's Sheet of Self Knowledge

Name	: Ramesh Gupta
Educational Qualification	: B.E. (Mechanical)
Work Experience company sometime in a academic	: Working for two years as a sales executive in a producing textile (processing) machinery. Spent medium-sized machine tool factory, as a part of his course, while he was doing his BE.
Income income.	: Earns a monthly salary of Rs. 30,000. No other
Family Background family is a subject.	: The son of a government official. No member of the businessman. Machine-design is Gupta's favourite

Gupta is in a position, thanks to his father, to invest about Rs. 15 lac. With loan, this means that he can think of a project-investment of Rs. 35-40 lac. He lives in Bhopal. He is prepared to set up his unit anywhere in a vicinity of 100 kms from Bhopal.

Gupta is interested in engineering, electronic and plastic sectors. He thinks that his mechanical engineering background will be of advantage in these sectors. His exposure to machinery-production/sale will help. He wants to avoid the chemical and pharmaceutical sectors for want of technical knowledge/exposure. Besides, he thinks that the investment he has in mind is too small to do anything in the chemical or pharmaceutical sector. He has similar views regarding required investment for an agro-processing project.

Gupta believes that a job, however hard he works, cannot make him rich. In business, one might have to struggle initially, but once it stabilizes and grows, it is rewarding. You



can grow and diversify. He can rely upon his father to facilitate his interaction with banks and government departments, given the latter's contacts. His father can also do some liaison and coordination work at Bhopal, whenever needed, though he cannot be expected to give full-time or regular help. Gupta need not worry about his livelihood in the next two years, as his father has assured him of support. However, Gupta is anxious that his project makes profit from the second - if not first – year onwards.

Gupta expects the project - after a year - to earn at least double the amount of his present salary. He looks forward to a minimum 25% return on investment (35 to 40 lacs) after two years operations. He wants a business whose break-even point does not exceed 40% capacity-utilization.





### Box D contd

Gupta enjoys marketing. He is confident about production. However, personnel management, raw-material purchase and financial management are aspects of business with which he is not so familiar. His contacts are limited to textile-processing houses. There are friends who have contacts in large engineering public sector companies, these friends are expected to be helpful.

Gupta is thinking of outsourcing most of manufacturing of the equipment, which he will choose to produce. He will not make much investment in machinery and equipment. He will provide design, supervise production, manufacture some critical parts, check progress and quality and supply material to contractors who will fabricate machines on his behalf.

Gupta is looking to manufacture equipment's, which fit into the above profile.

Using the questionnaire 'Getting to know yourself', prepare a sheet of your self-knowledge.

## 2.4 Development of Opportunity Identification and Selection (OIS) Framework

Being open to any opportunity under the sun might means not taking any action at all. It is imperative that you develop your own list of criteria for OIS. This will help you clarify your expectations and set to rest your anxieties. The list is essential to ensure sufficient focus. Your list of criteria would help you arrive at answers to the following questions

### (a) Investment

How much are you willing to invest? You will have to decide at least the range, the amount of money you will put in and the amount you would like (or be able) to borrow. You will thus arrive at the total investment. Make sure you understand what investment (project cost) means. Many small entrepreneurs equate project cost with cost of fixed assets. They overlook that it includes the following:

- Preliminary and Pre-operative expenses: Expenses incurred prior to commencement of production like cost for preparation of project report, company formation, legal expenses, salaries of personnel/travel/telephone/stationery/printing, interest on loan during project implementation period and cost of trial production. Remember trial production is not limited to manufacturing projects only. Hotels do "soft opening which is trial of its working for a few days when it is ready but without taking any paid guests.
- Contingency and escalation: Expenditure on facilities/purposes which you did not anticipate and escalation in price. In other words, you missed some items but have to provide now and the price of some items went up, while



you were setting up the project.

- Working Capital Margin: A portion of working capital, which the bank will not give you and will have to be brought in by you.

It is essential to keep all these components in view. An entrepreneur who thinks in terms of fixed assets alone and looks for a project in the range of Rs. 15-18 lacs does not realise that the investment, inclusive of the above cited components, might work out to be in the range of Rs. 22-25 lacs.

#### (b) Technological Sophistication

What is the degree of technological sophistication you desire? Judge how much sophistication you can cope with before answering this question. It is not enough to secure technical know-how, you will have to absorb and adapt it to your purpose. For a small entrepreneur who does not have any technical background or experience, such absorption is difficult - if the technology is complex. In fact, it is a daunting task for such an entrepreneur to judge the soundness of a technical knowhow. You have to decide the level of technological sophistication underlying the business idea for which you are prepared.

#### (c) Managerial/Organisational Demands

How large or complicated is the managerial/organizational task? How do your own education, skills, experience match this task? All enterprises involve management. It is the amount and intricacy of managerial functions and your capability which you need to focus on. Take the example of a technician who is only a school graduate and his experience is limited to supervising workers in a small automobile-part company. He chooses to manufacture power-coils which involve 22 kinds of raw materials, three of which are imported. Besides, the product needs to be sold in 10 to 15 cities through a network of dealers. There is the danger of his capabilities falling short of the procurement, production-scheduling and marketing demands inherent in the project. However, you have to determine the managerial/organizational load acceptable to you.

#### (d) Market and Competition

One often comes across entrepreneurs looking for "monopoly" business-opportunities. The search is often futile because such opportunities are, in most instances, beyond the financial and technological reach of small entrepreneurs. But the expectation underscores a certain attitude to market and competition. Are you competition-shy or prepared to fight to make room for yourself in a somewhat crowded market place? Answer this question before scouting for specific opportunities. Be also clear whether you are interested in exports or not.



(e) Sector Preference

Your educational background, work-experience, exposure to business, network of contacts, location-choice and perceptions can affect your sector or industry preferences.

You might therefore decide, right at the outset, that you would like to select an opportunity in, say, chemical or plastic or healthcare sector. There prevail, from time to time, perceptions of what are called "sunrise" sector. In other words, sectors which are looked upon - not always correctly - as high-growth or bright- future sectors. You might be influenced by such perceptions. You might also have an aversion to some sectors. So, state your preferences and aversions as clearly as you can.

(f) Government Intervention / Dependence

You would have a definite attitude vis-a-vis market and competition, and likewise, temperament or skill vis-a-vis government intervention/dependence. For example, there is a price control on pharmaceutical industry, or restrictions/on import of electronic components. Some entrepreneurs thrive on such control. Others are averse to it. Another form of dependence you might have is government being the sole or the most important customer. There is a popular belief, that it calls for considerable "public relations" to sell to the government. Every entrepreneur does not have this flair. So, define what your attitude towards government dependence is.

(g) Implementation Time

What time frame do you have in mind for making your enterprise operational? Your search for an opportunity will be influenced by an answer to this question. If you have quick implementation- schedule in view, ideas which entail considerable technology sourcing, complicated government approvals, long schedules for machinery-delivery or human-resource hiring will not fit in.

(h) Personal Considerations

The range of personal considerations underlying OIS is likely to be unlimited. This is an aspect of OIS-work which has received scant attention. In many cases, these considerations surface clearly after a project is set up. It is not possible, often, to fulfil personal considerations and hence these may have to be relaxed. We are presenting an illustrative list of personal considerations:

- Taboos/Religious Sentiments

Mr. Khanna was looking for an opportunity in the food processing sector. A friend suggested "frozen-meat". It was a taboo for Mr. Khanna; he was a vegetarian. You might also have some taboos.



- Life Style

Mr. Vivek Sharma is a successful trader in Agra. He has got a number of coveted trading agencies. He is an engineering graduate. He is also an MBA. But, now he has to spend time hobnobbing with local traders. They are ill-educated and uncouth. There are late-night parties at which the level of conversation is pedestrian. Sharma is a man of considerable intellectual and cultural propensities. He is happy with material success, but regrets the life-style determined by his chosen vocation. He wonders whether he should have ventured into something else. His advice to new entrepreneurs is, "It is good to wish to become rich. But ask yourself - become rich, doing what?"

- Relative Importance of Money

Mrs. Mehta comes from a textile magnate family. She got bored being a mere housewife and established a restaurant which did reasonably well. It brought her an annual income of around Rs.20 lacs. After two years, she decided to close it as it meant full-time hard work for her. She had to spend 10 hours a day managing it. If she was not present, the clientele and income declined. It meant she had to sacrifice her own interests like club visits, kitty parties. She thought an annual income of Rs.20 lacs was not worth the bother and the hardship and sold off the restaurant.

- Amenability To Takeover By Children

Amit Gupta makes electronic components. There is keen competition. There are intense production-scheduling, raw material procurement problems. In the past two years, a few similar units have closed down. Gupta is able to carry on because he has, over the years, developed a firm grip over the business. His technical background, problem-solving abilities, capacity for hard work - all these have kept his enterprise going - and in reasonable health, while others have failed. Gupta is 50. he has a 22-year old son. A sincere young man of average ability. Gupta has grave doubts about his son being able to manage the business profitably. Gupta does not, usually, suffer from any exaggerated sense of self-importance. He has spent 20 years in this industry. In retrospect, he thinks he should have chosen a project which could be easily taken over and managed by his son.

- Speculative Orientation

Samir Trivedi has made a significant investment in an engineering project in a rapidly developing township of Gujarat. The investment in land and building is very high. Among others, this is one cause for the enterprise remaining in the red (making losses). Trivedi, however, is not too unhappy. His eyes are set on potential appreciation in land/building prices. He is, in a way, not firmly committed to the project. He is making an effort. If it takes off, well and good, if it does not, he hopes to make a



tidy profit from sale of land and building. This has been his calculation from the beginning. So, Trivedi is an entrepreneur and speculator - rolled into one. He might as well have chosen some other project. It would have made marginal difference.

These are few illustrations of personal considerations.

- Other considerations

There could be many.

A rich businessman has got household- appliance-sale-cum-service centre opened for his son. There is not much money in the business. In fact, not much money was expected. The main intention was to keep a wayward son meaningfully occupied. A woman runs enterprise primarily because she wants to provide jobs to other needy women.

### Sum up

- The opportunity identification is a process consisting of five steps.
  - preparation of personal profile
  - development of opportunity identification and selection (OIS) framework
  - generation of opportunity ideas
  - investigation and shortlisting of ideas
  - opportunity selection

These steps are not sequential. Besides, it is not compulsory that you follow all steps. The final step, of course, is compulsory!

- In this chapter, we have dealt with first two steps.
- The preparation of personal profile writing down relevant information/thoughts about yourself in the context of enterprise – launching – your education, experience, reasons for entering business, preferences, aversion, appetite for risk, etc. This is necessary so that you search for such ideas, which are in line with your profile. For instance, you are risk averse. It does not make sense to look into first-time-ever, unconventional business ideas.
- The development of OIS framework is essential for filtering ideas, which you spot. There are such parameters as investment, profitability, sector-preferences/aversion, preparedness for technological sophistication, attitude to market/competition, government dependence, implementation time, which drive entrepreneurial interest in an opportunity. For instance, the entrepreneur is interested in investing up to Rs.25 lacs; he will quickly filter out an idea requiring investment of Rs.50 lacs.



# UNIT

## 4

### Chapter – III

## Methods of Opportunity Identification

#### Contents:

- There are various methods or triggers to generate business ideas
- These methods are not water-tight compartments. You mix and match
- Each method entails some required caution

The aim of this chapter is to enable you to

- acquire a practical understanding of various methods for generating business ideas

#### Objectives:

On completing this chapter, you will be able

- to decipher which method/methods of idea generation are best suited for you
- to get started on your own idea generation work
- to judge what precautions you need to observe, while identifying ideas.



### 3.1 Generation or Identification of Ideas

So, you have worked out a personal profile. Your criteria for OIS have been clarified. Now, there is the task of hitting upon ideas - the heart of OIS process. The range and depth of ideas you pick up are determined by various factors like the nature of your exposure to business environment, your business acumen, vision, confidence and scanning or scouting capability. There also is a strong creative dimension. How do you generate ideas? There is no golden rule or fixed formula. However, we are suggesting some “triggers”, which can help you. Do not treat these “triggers” as separate compartments. Mix and match.

There are the following approaches to identification of ideas.

1. Natural Resources
2. Existing / Anticipated Industries
3. Market – drivers
4. Creative Effort
5. Other ways

### 3.2 Natural Resources

It is logical to look for ways. of converting natural resources into profitable enterprises. Suppose you are in a wheat-growing area, and there are bakeries which are either starved for flour or have to procure it from distant places. So, flour-mill is a worthwhile idea. It would help, if you keep in view the following gamut of natural resources:

- Forest
- Horticulture
- Agriculture
- Agro-waste
- Marine or Aqua
- Mineral
- Animal
- Wind
- Sun
- Human

The knowledge of existence of a resource in itself does not bring forth an idea. It will have to be combined with technical/commercial knowledge to arrive at an idea. Sometimes access to such knowledge is easy. Look at **Box A**, which enumerates fruit-based opportunities prepared on the basis of elementary knowledge. Sometimes, such knowledge is inadequate and/or difficult to access.

So, While identifying opportunities based on natural resources, it would be beneficial for you to pay attention to the following:



## **Box A**

### ***FRUIT BASED OPPORTUNITIES***

1. Preservation in Brine
2. Canning
3. Dehydration, Sundrying
4. Block freezing
5. Individual quick freezing
6. Juice, Squash, Pulp
7. Concentrate
8. Soft drinks
9. Paste, Puree
10. Jam
11. Pickle and Chutney
12. Candies and bars
13. Freeze drying
14. Juice concentrate





### 3.2.1 Exploitation - Feasibility

It will help if you can judge the scope for commercial exploitation of a given resource because there are resources which fire your imagination but whose exploitation is either too difficult or unviable. Jagmohan Patel in Bhavnagar district grows a large quantity of guava, lime and pomegranate. He wanted to process these. But then, he looked at certain information (**Box B**) and his enthusiasm declined.

On the other hand, one is sometimes not aware of opportunity flowing from a given resource. It takes effort to decipher such opportunity, as EDII team discovered in respect of tungseed in Mizoram (**Box C**).

#### Box B

#### **MARKET POTENTIAL FOR PROCESSED PRODUCTS OF MAJOR FRUITS**

	<b>Domestic</b>	<b>Export</b>
<b>Pulpy Fruits</b>		
Mango	Good	Excellent
Banana (Puree)	Limited	Fair
<b>Others</b>		
Papaya (Pulp, Papain, Tutti-frutti)	Good	Good
<b>Juicy Fruits</b>		
Grapes (Wine)	Fair	Good
Seedless Grapes (Black and White) (Wines)	Limited	Good
<b>Others</b>		
Pomegranate (Juice)	Little	Negligible
Lemon and Lime	Good (Pickles)	Fair
Guava	Limited	Negligible



## Box C

### **The discovery of opportunity: tungseed oil**

The opportunity is often not evident merely because there exists a resource. There is ignorance regarding what use it can be put to. Hence, the need to look deeper. EDII did this and got upon a valuable opportunity.

In late 1990's, EDII was doing work on promotion of banana-stem based products among entrepreneurs in Mizoram. The EDII team learnt about non-edible wild growing banana in the nearby forest. It visited the forest and was shown a basket of seeds called tungseeds. The locals explained how abundant the seeds are and that there is no use for these. However, at an evening dance in the forest, the team observed that a tungseed was stuck to a bamboo and lighted. The single seed gave out light, when burnt, for an hour. The team felt that the seed deserved examination. It got it tested at an oil testing lab in Junagadh and found that it contained tungoil. Tungoil, it discovered, was imported in India and was a significant ingredient for producing varnishes for electrical/electronic parts, braking for two wheelers, lubes for aeroplanes, paint, etc. Tungseeds and hence oil, then, was produced only in Argentina and China. A private oil-extraction machine producer at Vadodara was encouraged to fabricate a machine to produce oil from Tungseed. He developed a prototype machine, based on Chinese model. EDII organized a consignment of 7000 kgs of tungseeds from Mizoram to Vadodara. The private producer successfully extracted oil from Mizoram tungseeds. This led to establishment of a tungseed oil plant in Mizoram.



### **3.2.2 Resource-quantification and Life**

How well is the resource quantified? You can set up a bamboo-based plant, if there is bamboo-based business to produce mats, handicrafts, book spines, etc. You should decipher whether there exists enough bamboo to contemplate a bamboo based project. Do not get carried away by facile statistics. It takes bamboo 20 to 25 years to grow again.

### **3.2.3 Resource-Specifications**

Eucalyptus trees are grown in Gujarat. Can one think of an eucalyptus oil project? No. The species grown in Gujarat is unsuitable for making oil. Sheep are reared in Rajasthan. You can make yarn from it for either carpets or cheap, coarse, woollen clothing but not expensive woollen garments. This is due to the particular breed of the sheep. So, you must find out about the importance of the technical specifications of a resource.

### **3.2.4 Resource Stability**

The agricultural/horticultural output of a given resource, for a variety of reasons, varies drastically from year to year. You therefore, need to make a thorough, long-term assessment. There is a pineapple-processing project lying nearly closed in Bihar. There is a struggling tomato-processing plant in Kerala. In both instances, the supply of the raw material has dried up. Cottonseed cultivation in parts of Gujarat is petering out, thanks to advent of castor and mustard seed. So, the cottonseed processing plants are underutilised. There are numerous closed open-pan mini-sugar mills in India because the area where they are located no longer cultivate sugarcane. When the projects were conceived, one did not visualise such an adverse possibility.

### **3.2.5 Critical Infrastructure for Resource Utilization**

Natural resources are often perishable. Hence, the importance of road, transport and storage facilities. Madagascar grows a vast quantity of the lychee. The road/transport conditions in Madagascar are so poor that it takes 2 days to bring the output to the city (200 kms). from the growing area. Sometimes, the road is not serviceable and it is altogether impossible to transport the output. This is one of the reasons it has not been able to establish any lychee-based projects.

Strangely, improvement in infrastructure can also adversely affect the prospects. The grape-dehydration projects in Maharashtra find the going tough (difficult) because now there are such efficient air-freighting arrangements that the importing countries largely want fresh and not dehydrated grapes. So you must understand the significance of infrastructure in relation to your own natural resource-based business idea.



### **3.2.6 Commodity/Trading Dimension**

There are natural resources which are traded on a large scale. For example, spices. The prices fluctuate daily and there is speculative trading. If you base an idea on such a resource, you cannot insulate yourself against the trading or price volatility fall out, unless the idea means tremendous value addition to the commodity and there is little competition in the value-added product line.

### **3.2.7 Legal Dimension**

There are laws pertaining to exploitation/distribution of natural resources. Bamboo might be grown in your area but it may be reserved for tribals. There may be restriction on fishing in a specified area by people other than local fishermen. Consider these realities while looking for resource-based ideas.

### **3.2.8 Other Considerations**

Your intention in generating ideas is for the purpose of identifying an opportunity and not for academic purposes. So you have to be alive to the feasibility of resource utilization even at the idea-generation stage. Bagasse could be available in an area and you may contemplate setting-up a paper-mill but you should be aware that bagasse is also used as a fuel and you will not be able to match the price offered by those who use it as fuel. You wish to make bricks from flyash but cannot afford to pay for it price, which cement producers pay. Thus, existing pattern of resource utilization should be an immediate concern.

There are competing products based on manmade resources. You can make rubber products from natural as well as synthetic rubber. You should be interested in a comparison of both rather than get into natural rubber products right away just because there is natural rubber available in the area.

### **3.2.9 Sources for Resource-based Ideas**

There is no definite answer to this. Sometimes, the ideas would flow from your own exposure. However, you may not be aware of opportunities based on a specific resource. You may utilise the following sources to identify opportunities based on given resources:

- Large growers or exploiters of a resource, e.g., rice farmers or pineapple growers
- Resource-specific technical or promotional organisations, e.g., horticulture directorates, forest department
- Relevant specialists in entrepreneur assisting organisations, e.g. DI-MSME, Women Development Corporation



- Large traders in a given resource, e.g., spice traders
- Published technical / commercial literature on the subject

Non-industrial skills or craft-skills like handloom weaving, embroidery, woodwork, metal work and so on are rich in some areas. It is logical to think of an enterprise built round a traditional human resource.

### **3.3 Existing/Anticipated Business**

Existing industries/businesses in an area provide an important basis for identification. Projects in the pipeline are also relevant in this context. The existing industries/businesses, so far as you are concerned, might give you ideas about any of the following:

- similar business
- raw material for existing business
- further processing of output of existing business
- capital goods (machinery) for existing business
- projects based on waste or by-product of existing business
- packaging material for existing business
- projects based on skills technology developed through existing industry

Let us understand these avenues

#### **3.3.1 Similar Business**

It is easy and natural for an entrepreneur to follow suit and put up a similar business. A few modular kitchen fabricators in the area are doing well; you notice it and it appears on your list of ideas. Likewise, you see that automatic car-wash centres are apparently doing well and you put it on your list of ideas. You are also influenced by owner profile. You think the owner of a newly established event management company is a smart businessman, you watch him making money out of it and you instinctively consider event management business.

#### **3.3.2 Raw Material/Inputs and Ancillaries**

You can also explore the possibility of supplying raw materials or packing materials to industries in your area. There are dyestuff intermediate projects around dye-producing centres. Ancillaries – particularly in engineering, automobile, electrical and electronic industries – are common.

In an education hub, there might be many students hostels and most of them are likely to outsource catering for students to a contractor, which is yet another business opportunity.

#### **3.3.3 Further Processing**

Leather-article manufacturing units are generally set up around tanneries. There are dyeing and printing units at Surat because of powerlooms there



which make grey cloth. So, further processing is an obvious idea.

### **3.3.4 Capital Goods (Machinery)**

The scope for making machinery for existing industry, though not common, also needs to be examined. If there are rice-mills coming up in an area, there is a definite prospect for a rice-mill plant manufacturer. There are instances of producers of chemical vessel and oil-mill machinery manufacturers having established operations at centres where the buyer-industries are located.

### **3.3.5 Waste/By-product Utilisation**

Waste/by product utilization is often a less evident possibility. So, put on your scouting cap to locate such opportunities. There are entrepreneurs making plaster board from gypsum – a by-product of fertilizer plants and dye intermediates from crude naphthalene, emanating from steel plants.

There are entrepreneurs who are interested in making briquetted fuel from bio-mass. There are those who buy trimmings (left over fabric) from a high fashion fabric manufacturer and convert these into garments for infants.

### **3.3.6 Packing Material and Service Needs**

A fair amount of non-routine opportunities are emerging in packing materials. If you contemplate any of these, you must look beyond businesses in the local area, though you might be prompted to consider an opportunity because of local area requirement.

Sachet-packing, nearly absent in the Indian market a few years ago, now covers a wide gamut of products, e.g. pan masala, shampoo, flavoured dried dates, dhana dal etc. Fancy paper bags are in demand.

You should also make a long-term assessment of prospects for a given product, particularly if packaging has contributed significantly to its success. For example, tetrapack played a key role in the success of 'Frooti'. Seeing this, some entrepreneurs invested in tetrapack facility. But these were grossly underutilised. There are idle tetrapacking machines available for sale or hire. In the wake of the success of Frooti, they miscalculated the potential for tetrapacked drinks in India.

Businesses/Industries need a variety of services - repair, maintenance, transport, warehousing, house-keeping, security, paint, insulation, energy-conservation, fabrication. You can spot services for which there is a good demand.



### **3.3.7 Skill and Technology Base**

Existing businesses bring about a base of skill and technology. We have sheet metal skill at Bhopal. There is foundry and machining skills at Rajkot. There are numerous chemists at Ahrnedabad who are at home with dyestuff and dye-intermediates. The workers, supervisors, suppliers - all of them, - understand and absorb the technology. So, you can think of a project based on existing technology and skills even if the product/service is presently not made/provided at your location. For instance, there is abundant IT skill at Bhubaneshwar; many professionals work in other cities. Given this fact, an IT enterprise seems a viable business idea for Bhubaneshwar.

While identifying opportunities based on existing industry, you are advised to keep the following in view:

### **3.3.8 Outlook for Existing Industry of your Interest**

Gauge the performance of the business which is likely to become your buyer. Try to learn about its future. The fact that there are numerous units of that business does not mean it has got a good future. If there is industry-wide sickness for a particular business or it is generally feared that the business would go down-hill, you must be cautious and think twice before contemplating to become a supplier to such an business. For instance, too many people have entered packed snack business in the wake of Covid-19. Many enterprises may decline after sometime. So, you have to be careful, if you are considering to become a supplier to snack business.

### **3.3.9 Captive Arrangement**

You should not be misled by large requirement of a particular component or service from an existing business. The important question here is whether there are any captive sources of supply. In other words, the owner of existing business virtually owns the enterprise which supplies the component or service. If there are such sources, it would be almost impossible for you to supplant these, however competitive your rates are. For instance, there is a pharmaceutical company which needs a large number of corrugated boxes every day; these boxes come from a factory 100 kms. away, set up by a nephew of the owner of the pharmaceutical company. This is a quasi-captive unit. So, check whether there are captive or quasi-captive units, particularly if you have a packing material project in mind. There is an education business consisting of a chain of schools and colleges in a city, requiring 100 security guards. The managing trustee owns security agency, which provides the guards. It will be difficult for you to complete.

### **3.3.10 Nature of Decision-making**

It would help if you grasp the nature of decision-making process in the



existing business to whom you want to sell. The procurement decisions in government /co-op. enterprises, some observers believe, are not so objective or merit-based. If this is true, it means that you should not be influenced too much by the presence and the needs of such units in your area, unless you are confident that you will be able to cope with the peculiarities of decision-making in such enterprises.

There are multinationals and some large companies whose decision-making quite often is concentrated in a distant corporate office. You might be next-door to a clutch (number) of pharmaceutical units, and you make the raw materials they need. But still you may not get business from them, unless you have access to the corporate office because it is not the factory manager who takes procurement decisions. It is the purchase manager in the corporate office who decides who to buy raw material from.

### **3.3.11 Projects in the Pipeline**

A group of entrepreneurs in Assam identified project opportunities based on a petrochemical project in the pipeline. They underwent EDP training at EDU and did a fair amount of groundwork on identified opportunities based on the project. The petrochemical project did not come through. So, you need to be cautious when you work out your ideas based on a large project to be established. The large project may get inordinately delayed or worse still, not materialise at all.

### **3.3.12 Motivated Feed -Back**

A buyer generally tends to keep as many suppliers in hand as possible. When you disclose your plans to produce a raw material or a component or provide a service to an existing entrepreneur, there is a danger of such an entrepreneur or his manager exaggerating the potential requirement for the same and encouraging you to enter the field for purely selfish reasons. Guard against such motivated advice. Ask probing, comprehensive questions like;

- Who are your suppliers?
- Is there any shortage?
- What are the reasons for dissatisfaction with existing suppliers?
- How much inventory do you normally hold?
- What is the delivery time?
- What are the terms of payment?

If still in doubt, check with other buyers and interview the present suppliers. In short, make your own independent investigation, if you





have the slightest reason to believe that their present supply position is satisfactory.

### 3.3.13 Look beyond Local Business:

The local economies are no longer closed ones. The freight and access advantage are getting affected by improved transport, communication and digital facilities. So, do not be satisfied with what the existing local industry offers. Look out and check whether there would be non-local demand for the opportunity you are considering. This is particularly true, if your volume of operation is not to be small or your product/service is such that it can be sold in non-local areas.

### 3.3.14 Well-entrenched Non-local Supply Businesses

Explore and identify who you are to compete with, if you choose a local business - linked opportunity. You may not undertake a detailed analysis of this but keep in mind the competitive advantage enjoyed by non-local ventures.

There are industry-clusters, e.g., acrylic yarn produced in Punjab, brass parts made at Jamnagar, clocks made at Morvi, pottery made at Khurja, machine tools made at Batala, which have developed, over the years, strong competitive advantage through a process of skill-formation, technological improvement, procurement-efficiencies and so on. You want to set up an acrylic yarn project in Madhya Pradesh to supply to a few hosiery units there. Or, you want to produce brass parts in Punjab / Haryana. You have the advantage of being local. But will you be able to match the competitive advantage enjoyed by Ludhiana and Jamnagar respectively?

Make a preliminary investigation. Choose a geographical area undertake research and identify three business ideas flowing from existing businesses there

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List the two most important safeguards, which you will like to observe, while identifying opportunities based on existing businesses.

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## 3.4 Demand or Market-driven Opportunities

Technological advancement, constant upgradation of transport and connectivity and growing globalisation, all these combine to make opportunity identification, a market-centered process. You have to check



out the market, whether your opportunity identification is based on natural resources or industrial development. Under the market-driven approach, market itself becomes the basis for opportunity identification. The following methods are popular.

### 3.4.1 Trade-flows

You may examine the inflow with reference to a region /city/ village. What does a city or region get from outside? For instance, Gujarat gets furnishing fabric mainly from Haryana. Subject to other conditions being met, it may make sense to produce furnishing fabric in Gujarat because it is a large market and hardly any enterprises making it. There is a demand for Chinese/German/Russian interpreters in a given city and these have to be called from Mumbai. So, there may be scope for organising a local centre for interpretation in these languages.

### 3.4.2 Growth Products

Try to clearly perceive and think of growth products: These are products which have experienced a regular, remarkable growth in demand. These offer a ready opportunity. The examples of such products in India are:

- Quick-service or fast food restaurant
- Snack production and sale
- Ready-made garments
- Ayurvedic medicines/health products
- Taxi service
- Sneakers or sport shoes
- Plastic goods
- Stationery
- Coaching class
- Pre-primary schools

There are also such innovative products/service as:

- Pet-boarding
- Digital printing
- Youtube channels
- Low-cost sanitary napkins

There has been a sharp rise in demand for these, which has prompted several entrepreneurs to enter these businesses.

Go through **Box D**, which explains some market-based opportunities.



## Box D

### Selected Examples – Market Driven Opportunities

#### **Automated car wash**

There has been a strong growth in ownership and use of cars. In addition, people have become careful about how their car looks. On the other hand, modern cars do not require frequent maintenance service. So, a market for thorough, automated washing of cars has opened up. The washing is done through automated brushes, untouched by human beings. The washing and drying are quick. There are such options as exterior wash, basic wash, unlimited full serve wash. The car wash establishment generally offers such related services as car coating and protection, wheel alignment, car wrapping and lube change.

#### **Cold pressed oils**

These are very much in vogue now. These are edible oil extracted without using heat like “ghani” in earlier times. They are extracted from seeds, nuts, veggies, fruits, e.g. sesame, groundnut, coconut, olive, sunflower. They are unrefined and free from harmful solvent residues.

#### **Camps for school children**

In the west, summer camps for children are popular because summer is a pleasant season. In addition, many parents are working, most families are nuclear. So, the parents have to spend money on day-care facility or baby-sitter, if children stay at home during summer. This explains massive growth of summer camps in the west.

The summer vacation camps are becoming popular in India also. The Indian summer is harsh and so most camp-activities tend to be indoor. However, the weather during x-mas and winter is pleasant. So, camps during these times are now being increasingly offered.

Depending on the nature of customer (essentially parents but influenced by the children), the activity-on-offer, location, timings, pricing and the camp-in-change reputation drive the volume of business.

#### **Organic Beauty Product**

There is growing disenchantment with chemical cosmetics. On the other hand, there is interest in natural or organic cosmetics since they do not cause harm and deliver results. In view of this, Bijal Jagad, who possessed experience of working at a chemical cosmetic company, decided to produce and market. “Shree Sutra” in February, 2019 – a range of organic chemicals. The chemicals are



### **Box D Contd**

- Triphala Facial Tonic helps in rehydration of skin and removes dead and dry skin.
- Tulsi Melethi under Eye Gel removes pigmentation, dark spots, sunburns and promotes health skin.
- Macha Green Tea Body Balm to improve blood circulation and reduce stress and pain.

### **3.4.3 Product Positioning/Differentiation**

Product differentiation is becoming a key issue on market-driven opportunity identification front. As the world shrinks, the traditional demand-supply gap concept, barring a few high-tech or scarce resource-based products, is rapidly losing its relevance.

The gaps are likely to become a thing of the past. What becomes important is how you will be different from others in terms of product-features, applications, price, quality, delivery-schedules and after-sale service. Positive answer to this would determine whether there is room for you. If there are too many undifferentiated enterprises, some are bound to die. So, locate ways in which you and your products will have an edge in the eyes of a customer. This is called "positioning".

There are several producers of spiced cashewnuts. The introduction of a 25 - gram pack of spiced cashewnuts by a company meant creation of an almost new opportunity (This to an extent takes us, into the realm of creativity which we have discussed separately). What we are suggesting is that a keen observation of the market and investing your product/venture with special features which would help you fulfill customer-needs, not till now fully met, can give you a competitive edge in the market. You, thus, must not lose sight of the concept of 'positioning' while looking for a market-driven opportunity.

### **3.4.4 Other Market – Related Opportunities**

The word market, for our purpose, does not mean merely buying and selling. It encompasses all stakeholders which influence buying and selling – producers, raw material suppliers, workers, middlemen, customers, physical infrastructure provides, regulators, fund – providers, government (policies), etc.



There is a belief, in some quarters, that market is a perfect phenomenon which ensures that demand and supply match well, the price is driven by competition and hence fair and all customers have an equal opportunity to access products and services at a competitive price. In reality, the market is not always perfect. There are several instances of “market failure” or “imperfections of the market”. This means difficulties, for some, in either securing goods or services at competitive price or realizing fair price for the products and services, which they produce.

This, in turn, throws up opportunities.

- ❖ Access for the poor to some goods and services
- ❖ Market – access for the poor to sell their production
- ❖ Coping with monopoly
- ❖ Externalities

#### **3.4.5 Access of the Poor To Some Goods And Services**

There are product and services, which do not reach the poor because of various reasons. These reasons may pertain to product standard, pricing, unit – volume, distribution and logistics. For instance, a tribal family needs six spices amounting to 40 grams to cook fish for the family. The family is a daily wage earner. It does not have cash to buy grain, pulses, edible oil in a large quantity. The kirana shop will not sell less than 50 grams of a given spice. The average retail price of a spice is Rs.250 per kg. In order to buy six spices, the family needs to buy a minimum total quantity of 300 grams (50 grams each of six spices) and spend (minimum) Rs.75. The family does not have Rs.75 and hence it cannot buy six spices necessary to cook fish. It is in a position to spend maximum Rs.15 on a single purchase, which is good enough to buy a total quantity of 60 grams - 10 grams each of six spices. No shop sells a spice quantity as low as 10 grams. Thus, the product is available in the market but the minimum unit sold is too large for a poor tribal family to buy.

An entrepreneur comes out with a six – compartment, pouch; organizes his sourcing, filling and packing in such a way that the retail price of the pack does not exceed Rs 15. He makes modest profit.

The above – mentioned enterprise opportunity arises because the market conditions are tilted against the poor. Thus, imperfect market conditions give rise to many social enterprises. The imperfect market may not hurt just the poor. It may hurt, depending on the case, women, elderly, physically / mentally challenged, people living in remote areas, minorities and many other groups.

#### **3.4.6 Market for Poor Producers**

It is not only in the matter of accessing products and services that the poor have a disadvantage and suffer from market failure. There is failure, in some cases, in respect of selling their product or services. The craft persons, often, get a small fraction of the price which the buyer pays to the end of the chain. The craft persons do not have financial resources, knowledge and competencies to compress the chain or negotiate a better price with intermediaries in the chain.



There are numerous groups – artisans, farmers, small vendors and small producers – who suffer a disadvantage in terms of marketing and fair price realization.

Rangsitra is engaged in assisting craft persons through an enterprise (**Box E**).

There are street vendors who do not have cart-level lighting and lose business when it gets dark. The renting out of rechargeable LED lights to such vendors, is an enterprise.



## Box E

### Rangutra: Craft-based Social Enterprise

Sumita Ghose worked in various rural parts - mostly western Rajasthan – with Uttari Rajasthan Milk Union (URMUL) Trust for many years. She holds MA in Economics, Mumbai University. She was Full bright scholar in USA, where she did a masters degree in conflict resolution.

Vijay Mahajan, founder and CEO of BASIX Social Enterprises Group and Amrita Patel, the ex-chairperson of National Dairy Development Board encouraged her to organize a producer company of artisans.

The result was Rangutra Craft Duniya Producer Company consisting of five artisan groups of 10 members each. Each group contributed Rs 10,000/-. Some of these groups were

- ❖ URMUL
- ❖ Grassroots from Uttarkhand
- ❖ Action North – east Trust

The company organized sale exhibitions. It also began selling to Fab India – a large Indian retail chain, founded by John Bissel in 1960 in a spirit of promoting Indian artisanal textile work and enhancing artisan earning.

The producer company approached the State Bank of India but qualified for a loan of merely Rs 4 lacs because it did not have mortgagable assets. It collaborated with a donor agency, spent Rs 6 lacs on market research. However, the donor agency backed out since it appeared a profit – m.

Aavishkar is a social venture equity fund.

This is how RCIPL came into existence.

RCIPL is a company, which is endeavoring to balance profitability and a wages in a competitive environment. Its artisan base is 2000 strong. Majority (1027 artisans) is RCIL shareholders (27% of RCIL equity) (the artisan shareholder base was raised by another 600 in 2011)

While artisans are mainly weavers, the organization operates three units

- ❖ fabric – making
- ❖ embroidery and
- ❖ product making.

The main product is apparel. RCIPL works through 30 producer groups of 25 to 200 artisans each



### **Box E contd**

The groups are located in Rajasthan AP, Assam, UP, and W. Bengal. The turnover in 2006-07 was Rs 30 lacs. In 2010-11, it was Rs 10.5 crores. Over 2009-11, RCIL turnover grew @66% pa.

The shareholders (artisans included) received dividend @10% in 2008-09, 15% in 2009-10, 25% in 2010-11.

The artisan income, according to Asian Development Bank (ADB) report (2012), rose from \$ 22 to \$66 per month. Besides, Rangсутra has provided them access to financial schemes and welfare schemes of the government. 70% of the artisans are women. They earn Rs 3000 to Rs 5000 per month now, compared to Rs 500 to Rs 1000 earlier, because the work then was irregular.

Skilled male workers working full time can earn up to Rs 10,000 per month. RCIPL pays identical piece rate to men and women. It has increased its weaving rate from Rs 10-15 to Rs 50-54 per mtr.

RCIPL claims to have broken even in 2009.

RCIPL was expected to increase the number of artisans to 10,000 by 2015.

### **3.4.7 Monopoly or Oligopoly**

There is, sometimes, monopoly or oligopoly - a single or few traders controlling the market.

Let us say there are milk producers in a village. There is just one aggregator cum buyer. The individual milk producer accepts marginally unfair terms from the aggregator because he can ill – afford to transport milk, the buyer will not accept a small quantity and will buy milk on credit rather than cash terms. The failure, in these cases, is the producer having to accept less – than – fair terms. An effective co-operative dairy, which collects milk, stores it in chillers, pasteurizes it and converts it into milk and milk – based products, pays a remunerative price, supplies knowledge, feed, medicine and veterinary care, is an entrepreneurship opportunity to address the problem.

### **3.4.8 Externality**

There are “externalities” which cause market failure. In these cases, reasons for failure go beyond local economy or conditions.

In Anand district of Gujarat, there are able – bodied, young persons in their 20's and 30's who are idle. There is a good supply of employment / self – employment opportunities or demand for potential employees / self – employed. Still, there is a mismatch. This is because the parents / relatives of these young persons are settled in USA / Canada They remit money to support the young persons. They





have sponsored these young persons for a green card / permanent residency in USA / Canada. The young are content living off remittance and awaiting issue of green card / permanent residency. They idle away 5 or 10 or even 20 years on the wait. They do not work. The cause for the mismatch is apparently external. An entrepreneur can launch business under which green – card aspiring youth are trained, at a modest fee, into skills, which would enable them to secure employment in India as well as USA / Canada.

### 3.4.9 Government related problems

A welfare state is expected to provide for the basic needs or rights of its citizens. While the family and market are providers of welfare, a progressive state strives to limit individual's dependence on the family or market for such needs. It is keen to promote the well – being of its citizens and ensure equality of opportunity.

So, it bestows rights or entitlements to its citizens.

The following is an illustrative list of such entitlements

- ❖ Security of life and property
- ❖ Primary education
- ❖ Healthcare
- ❖ Human rights – freedom of religion, speech, movement, justice
- ❖ Water – supply
- ❖ Sanitation
- ❖ Public transport
- ❖ Well – being of the elderly
- ❖ Electricity
- ❖ Food security

Many governments, though they recognize some matters as basic responsibilities, are not able to fulfill these responsibilities. Often, the government apparatus consisting of elected representatives, executive and judiciary is so inadequate and the problems / tasks are so stupendous that supplementary or additional efforts are essential. This throws up opportunities for private entrepreneurs (**Box F**).







### 3.5.3 Creating a Demand for a Psychological Product

There are products whose appeal is purely psychological. The mood rings - rings whose colour would change depending on your mood :- became a rage in the USA few decades back. There are some who maintain that the psychological considerations have out-weighed the utilitarian ones in bringing about the huge success of 'Cease-fire' - a mini fire- extinguisher which was produced in India. The real benefits of many cosmetic products are believed to be half-true; the other benefits are psychological – the user feels confident.

### 3.5.4 Technical Extension of an established Product Concept

The creativity here expresses itself in technical or managerial terms. A product concept gets established. You create an opportunity by achieving an extension of the concept. The mosquito-mat product concept was established in India in late- 1980s. A company came out with double-action mats - one to kill mosquito and another to spread fragrance. The 'angadia' service - an indigenous form of courier service - has been in vogue in India for several decades. Technical/ managerial ingredients of a superior system were brought in and the courier business was organised and established and has become very popular.

### 3.5.5 Creating a Demand Implicit In Emerging Life-Style

As the middle/upper class expands, the opportunities for life-style product/services grow. A 'club' was once meant for the elite. Now, there are present-day versions of recreation clubs, membership of which is avidly sought by the not-so-educated and not-so-sophisticated in a bid to identify with the educated/sophisticated. The time-sharing holiday resort schemes are sold as the concept of vacation as holiday gains popularity. Pubs are opening and proliferating in metropolitan cities. Whether it is clothing, accessories, wellness (spa), life style products and services are growing.

### 3.5.6 Introducing products/services alien to a region/country

A number of products/services are in vogue in developed countries in the West. One can spot those which are relevant to Indian conditions. The creative input here lies in looking around, observing and relating a given idea to these conditions. The concepts of fast-food restaurants, prefabricated housing systems, amusement parks, credit cards, disposable diapers, kitchen chimneys, malls, e-commerce - all these have come to India from abroad. It is an endless list.

Pneumatic tube system for hospitals is an example of German technology utilized to serve the requirement of Indian hospitals (**Box H**).



## Box H

### Pneumatic Tube System For Hospitals

Harsh Patel and Vishal Bhatani, together, founded. Homebrew Automation solution in 2019. They were students in automation and information in Germany during 2012-15.

Vishal's mother spent time in a large campus government hospital in India. While the hospital did not have adequate signage, the patient attendant was required to run around for many things – handover blood samples, test results, documents, etc. The hospital staff also spent considerable time ferrying articles and papers.

Based on German exposure, they developed pneumatic tube system (PTS) as a business proposition. It transfers material, through tubes, using pneumatic suction and pressure. The material is placed in a bottle shaped carrier. The sending and receiving points are called smart stations. The carrier, based on the destination station selected on a touch screen, takes the material to receiving point. Pathological samples, results, documents, medicines and such other materials are transferred through PTS.

PTS comes in varied size – 110 mm, 200 mm. PTS of 500 mm is useful for hospital waste management.





There are voluntary organisations which are guided by such considerations as employment potential or area development potential of an activity.

The school for the blind at Ahmedabad was looking for an unconventional activity for the blind - not just cane work or furniture. So, it devised the criterion of identifying an activity which would combine scope for employing able-bodied as well as blind persons. In other words, while there would be blind employees, there would also be able-bodied ones so that they have a better, profitable business.

There are voluntary organisations which take up such tasks for their target groups, e.g. women, tribals, etc. which can be conveniently performed by them.

There is no dearth of flukes, coincidences or chance events. Suketu Vyas, a large producer of optical lenses exclusively for export purpose hit upon the idea when he lost a pair of spectacles in Singapore and discovered how expensive they were there. Anjana Batra is in educational toys because toy-making became her hobby when her child was born and she wanted good educational toys for him.

### **Sum up**

- Three are broadly four methods or basis for identifying opportunities – natural resources, existing/anticipated businesses, market and creativity. There are not separate compartments.
- The natural resources encompass a wide range – forests, agriculture, horticulture, minerals, sun, etc. You can identify opportunities based on these resources. You, however, need to satisfy yourself regarding feasibility of resource – exploitation, stability, legal position, and availability of critical infrastructure for utilizing. The resource, while you consider resource-based opportunities.
- The existing/anticipated businesses inspire entrepreneurs to establish similar projects. Supply of raw material packaging material or equipment, further processing of their output or waste product vis-à-vis existing businesses are avenues for an entrepreneur. However, you need to exercise caution and check whether there are arrangements, existing business setting up captive units to get raw or packaging, material, the decision making in existing units located far away in head office – which will hurt your prospects, if you base your opportunity on their operations. Likewise, outlook for existing businesses matters.
- There are market driven opportunities. For instance, goods and services, which come into or go out of your area provide a clue. There are products and services, for which there are good market prospects. There



are low income families, which find it difficult to access selected goods and services and to sell their output. There are public goods – education, healthcare, sanitation, etc – in respect of which the government programmes are not adequate or for which information/access is not sufficient and hence offer scope for private enterprise.

- Creativity is a crucial trigger for identifying opportunities. We have explained the various ways in which it expresses itself. We discussed “Design Thinking” in the earlier chapter.





# UNIT

## 4

### Chapter - IV

## Investigation and Shortlisting of Ideas

#### Contents:

- It is important to examine the identified business ideas
- The examination needs to be undertaken from the standpoint of viability, personal suitability and compatibility with your OIS framework

The aim of this chapter is to enable you to move

- from generating ideas to assessing and shortlisting opportunities

#### Objectives:

On completing this chapter, you will be able to

- judge how sound the ideas generated by you are
- assess whether the ideas are in line with your own circumstances, competencies and preferences



## 4.1 Basic Work

An idea is not enough. You must examine its preliminary viability. Since you are to consider, at this stage, several opportunities, it is not possible to spend your time on a detailed investigation.

So, what do you do? You talk to the following; in addition to doing net based research

- entrepreneurs engaged in identical business
- potential customers
- knowledgeable officials in agencies assisting industry
- consultants / domain experts
- machinery suppliers.
- other stakeholders

The purpose of your conversation is to assess how good the business idea is, how the existing enterprises performing, reasons for good or bad performance level and nature of competition profit margins, problems opportunities, risk factors, etc. In other words, get a perspective on the idea. Evidently, you will sift the views you gather, judge how reliable they are, carry out the essential cross check and piece together the perspective.

At this stage, you also try to locate and read published material.

Your investigation should enable you to answer questions listed under the **Box A**. You might get tentative, if not precise, answers to most questions. You should be satisfied, if you get qualitative, even impressionistic information rather than accurate quantitative data.

Try to read what is easily accessible as well as undertake largely local field work. This is the process to be followed by a small entrepreneur. However, if you find an idea exciting or if, because of potential financial rewards or any such considerations, it catches your imagination, you may conduct a systematic and comprehensive investigation.

Your objective should be to arrive at a preliminary information sheet on a given idea, a sample of which is shown under the **Box B**. You can have several such preliminary information sheets.



## Box A

### QUESTIONS FOR INVESTIGATION OF IDEAS

1. What exactly is the product or service?
2. Its applications or uses'
3. Possible scales of production or operation
4. Project cost corresponding to a given scale of production/operation
5. Market/competition
6. Unit sale price
7. Degree of technological complexity
8. Expected annual turnover
9. Expected profit margin (range)
10. Any other information you can collect without incurring too much expenditure or effort.



## Box B

### ***PRELIMINARY INFORMATION SHEET: A SAMPLE***

1. A modest standard residential hotel with an attached restaurant in a city having population of ten lacs.
2. Accommodation, mainly for salesmen, traders and such other business-visitors to the city, though others will be welcome. A restaurant for all. Hotel-residents will form a small proportion of restaurant clients.
3. 20 double-rooms, including 5 air-conditioned rooms and 1 dormitory. Restaurant to seat 80 persons. Not air- conditioned.
4. The project cost will be Rs. 100 lacs plus the cost of land. Land, depending upon the site chosen, will cost Rs. 20000 to 25000 per sq. mtr. A 500 mtr. plot considered adequate.
5. There are 10 hotels with a room tariff of Rs. 1000-1500 per day. The total room capacity of these hotels is around 300. The overall occupancy is estimated to be in the range of 60% to 80%. The demand is growing at a good rate.
6. It will be self-managed. However, hotel-management-diploma holder will be hired to improve overall efficiency and introduce sound management systems.
7. In two years, the gross income is expected to be Rs. 125 to 150 lacs. The food and beverage income will be as much as the room income..
8. Profit before interest and tax, at an annual turnover of Rs.125 lacs, will be in the range of Rs. 50 to Rs. 60 lacs.
9. The most important thing is site. You must select a good site. Speed is important because a boom in real estate business is expected. This will push up land prices.



## 4.2 Comparison with personal profile and OIS Framework

This is important. Smita, a beautician, was considering two projects. First, a spa. Secondly, production and marketing of organic cosmetics. For spa, she would undergo training. The training school has got excellent reputation. It awards certificate, which helps the spa owner in marketing. For organic cosmetic production, she is dependent on a freelance technician for the know-how. The marketing effort required is intensive. Smita, given her own outlook on technical complexity and marketing, felt that spa project is better suited for her than organic cosmetic production.

## 4.3 Further progress

Next, you scale up your investigation. In other words, you aim at producing pre-feasibility study on one or two or three opportunities, which appear to make sense to you.

The studies will be based largely on reading and field work mentioned earlier but you will give it an analytical shape so that it becomes easy for you to eliminate or select an idea.

Giriraj, after initial research, narrowed down his interest to two business opportunities.

- Serviced Apartment
- Indoor sport complex

He, next, put together, pre-feasibility studies on both projects. We have outlined these studies in the following sections.

The studies give you an idea about investigation and analytical work, which you need to do. Both projects are space-based. The project cost is nearly identical. There is not much difference in estimated annual income. The difference in operating profit is marginal.

The final selection will depend on the personal profile and OIS framework of Giriraj. But the pre-feasibility studies have brought him fairly close to final selection stage.

## 4.4 SERVICED APARTMENT

### INTRODUCTION:

The hospitality industry, in contemporary times, offers a wide range of products – luxury hotels, budget hotels, mid-market hotels, bouquet hotels. They cater to varied needs – business, relaxation and leisure (resort), MICE (meetings,



incentives, conventions, exhibitions) social events (banquet). Depending on the felt needs of customers, the industry innovates new products.

There have emerged streams of customers whose needs are not fulfilled by conventional hotels. They need to stay at a destination for long time, a few weeks or even months. Given the duration of stay, they are likely to feel cramped in a hotel. They become, because of stay-length, dissatisfied with restaurant/hotel food and crave for homely food. Sometimes, they wish to invite colleagues/friends over to hold a small party and hence need space. Then, there are families, which find it inconvenient to accommodate children in a hotel-room, who make demands in terms of food and recreation which cannot be met through the format of a conventional hotel. It is in response to needs of long-stay customers, families and such other groups that the concept of providing apartment space, backed by many of the facilities which the hotels provide, has grown in recent years. The facility is called “serviced apartment.”

## **PROJECT**

The proposal means renting out some ready and furnished apartments and operating a serviced apartment facility.

The apartment will have the following facility.

- ✓ A single bedroom
- ✓ Small lounge or living room
- ✓ Kitchenette
- ✓ One bathroom
- ✓ Hot water facility
- ✓ Air-conditioning
- ✓ Cable television
- ✓ Internet connection
- ✓ Cutlery and crockery
- ✓ Gas/electric stove
- ✓ Fridge
- ✓ Microwave oven
- ✓ Tea/coffee maker



The entrepreneur will look after housekeeping – cleaning, mopping, change of linen, supply of towels and toiletries. The food and beverage will be supplied on demand during regular hours. The entrepreneur would outsource food supply, which means he would depend on external supplier rather than run own kitchen.

The entrepreneur will set up rules in order to ensure that the facility is not used for unlawful or undesirable activity and the occupants do not cause inconvenience to others in the building.

## **MARKET POTENTIAL**

The key ingredients of serviced apartment proposition are:

- ✓ Larger space than hotel room
- ✓ Nearly hotel like facilities in terms of house-keeping and ambience

The market for serviced apartment in India is growing @15% to 20% per year. The development commenced on the strength of IT/ITes business, which needed to deploy on-site professionals for a few weeks or months. The early hubs, therefore, were Bangalore, Pune, Hyderabad, Gurgaon.

In addition to IT/ITes, the following four streams of demand are driving the serviced apartment market.

- Industrial areas
- Long stay guests
- Medical tourists
- NRIs and foreigners

The nature of business, however, is such that a small entrepreneur can easily enter it. The facility promotion can be done in web/social media mode; it does not entail much expenditure. The customer-reviews, among other things, drive



business volume. Many customers are repeat customers and so happy experience contributes to business build-up.

There is excellent scope for tie-up with corporates.

## **PROPOSED SIZE**

The entrepreneur envisages the project to consist of three apartments, each apartment will admeasure approximately 750 sq. ft. of built up area. It will consist of one bed room, lounge and kitchenette.

The maximum allowable occupancy will be two adults and two children or three adults per apartment.

## **OPERATIONAL REQUIREMENT**

The guests would expect all equipments to function efficiently and reliable housekeeping. They will have access to the common facilities maintained by the building, e.g., children play area.

## **FINANCIALS**

The promoter will spend approximately Rs. 2 lac per apartment for making necessary refinements/arrangements, e.g., paint, stove, electric kettle, cutlery/crockery, cable tv, wi-fi, air-conditioning, etc. Inclusive of preliminary and pre-operative expenses and working capital margin, the project cost will be Rs.7 lacs. The entrepreneur expects an average tariff of Rs.2500 per apartment and 60% occupancy, denoting an annual rental income of Rs.16.4 lacs (three apartments). We may add 10% net income from food and beverage supply and such other services, implying a gross annual income of Rs.18 lacs. The operating cost is: annual rent – Rs.7 lacs, repair and common maintenance – Rs.0.5 lacs, marketing – Rs.1 lac, manpower – Rs0.5 lacs, electricity/fuel/consumables Rs.1 lac, Total Rs.10 lacs. Thus, the annual operating profit, before providing interest, depreciation and tax, will be Rs.8 lacs. The breakeven occupancy is 35% occupancy





## 4.5 INDOOR SPORT COMPLEX

### INTRODUCTION

There is significant interest in sport among urban population in India. The interest cuts across various age-groups, though children/adolescents/ youths – relative to other age-groups – engage more in active sport. The outdoor sport is land-intensive and hence the enthusiast does not expect the facility, always, to be in the immediate vicinity of his location. He is willing, given the level of his interest and convenience, to travel some distance. The indoor sport, however, is not space-intensive. It is possible to bring indoor sport within the convenient reach of sport enthusiasts. However, such possibility has, by and large, not been exploited by private entrepreneurs. How does an ordinary person, willing to incur moderate expenditure, access such indoor sport facility as table tennis or carom? There is no easy access. The facilities exist largely in clubs, whose membership is expensive or in some academic institutions (access limited to their students and again, not fully convenient to non-hostel students) or in few corporate campuses. On the whole, indoor sport facility, within manageable distance and at reasonable price, is not available to large swathes of urban Indian population and this reality offers an entrepreneurial opportunity.

### PROJECT

The proposal centres around establishment and operation of a private indoor sport complex. The complex will offer the following sport facilities.

- Table Tennis
- Badminton (Outdoor)
- Card-games (cards, monopoly, backgammon, etc.)
- Chess
- Carom and other

It will aim at attracting users from within its vicinity.

The indoor sport complex will invite membership, just as gyms do. It will be open to children, adolescents and adults.

The key competencies so far as the promoter is concerned, are design and layout of the complex, selection and management of equipment, marketing and



operation of the complex. If the promoter is a sport enthusiast, it will help. However, member management will be crucial. This involves ensuring that members do not have to wait inordinately to utilize a given facility, some members do not gang up to the disadvantage of others and that members behave decently.

## MARKET

The project is a part of larger sport industry, sport for either recreation or for competition. The rising income level and globalization have brought about greater enthusiasm for sport in India. Such sport as badminton and chess are far more popular in India now than before. There is a buoyant outlook for growth of sport industry in India.

The target market will consist largely of students and working adults, typically people who can ill-afford club membership. The business model will follow largely the gym model. There will be membership. Evidently, there will be incentive for a member who makes an annual commitment, compared to the one who does so only for a month. However, non-member visitors will be encouraged and they will make pay-per-use payment.

The entrepreneur expects the center, given this potential, to attract 400 members.

## PROPOSED SIZE

This is computed in terms of the facility-mix and the numbers of units provided for each facility. The computation is as follows:

Sr. No.	Sport	Units	Space Requirement
1	Table Tennis	4	12 sq. mtrs. per unit
2	Basket Ball	1	150 sq. mtrs. (outdoor)
3	Card-games	6	5 sq. mtrs.
4	Chess	6	3 sq. mtrs.
5	Carom	6	5 sq. mtrs.
6	Other		20 sq.mtrs.
7	Common Area (lounge, toilet, circulation, etc.)		50 sq. mtrs.
<b>Total</b>			200 sq.mtrs. (indoor) 150 sq.mtrs. (outdoor)



The center, if fully occupied, will cater to around 80 individuals simultaneously. It will have a small beverage-cum-snack outlet which will be given out on rent.

## **OPERATIONAL REQUIREMENT**

The centre is not to offer any specialized sport, which entails close supervision. It will not provide any coaching facility but it will facilitate tie-up with external coaches, if individual member is interested. It will sponsor competitive events from time to time.

Bulk of the operational management will pertain to formulation of rules regarding facility utilization (e.g., a member may not be entitled to spend more than specified amount of time at a facility, if others are waiting), pre-booking (and penalty for no show), first-cum-first served practice and such other aspects.

## **FINANCIALS**

The project cost would be Rs.8 lacs including a rental deposit (Rs.1.2 lacs) for three months (The premises will be rented). The annual membership income (400 members x Rs.5000) will be Rs.20 lacs, plus there will be some income on account of pay-per-use, event-sponsorship and food/beverage outlet rental. A gross annual income of Rs.25 lacs and operating profit (before providing interest, depreciation and tax) of Rs.10 lacs are envisaged. The complex will breakeven at 200 membership strength.



## Exercise

List two business opportunities, which you have identified

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Put together basic information sheet on the above two opportunities

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Explain how these opportunities match your personal profile and OIS framework

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## Sum up

- A mere business idea is not enough. You need to flesh it and check whether it suits entrepreneur's personal profile and OIS framework. In addition, it must be a viable idea.
- For examination of the idea, the entrepreneur should collect basic information what exactly the product or service is, scale of operation, market and competition, technology and financials – investment, turnover, gross profit margin.
- For gathering above information, the entrepreneur should carry out net-based and other search and speak to entrepreneurs engaged in similar business, customers, equipment suppliers, concerned domain experts and officials in relevant government agencies.
- Next, the entrepreneur should put together a preliminary information sheet on the idea and compare it with personal profile and OIS framework. If it is compatible, the entrepreneur should undertake further research.
- Further research would lead to a pre-feasibility study; essentially an upgraded and better version of preliminary information sheet.
- If the entrepreneur is seriously interested in multiple business ideas, he needs to have a prefeasibility study on each one. Pre-feasibility study means that the entrepreneur is only one stage away from final selection.



# UNIT

## 4

### Chapter - V

### Final Selection

#### Contents:

- You reach a stage at which you need to select the opportunity
- You need answers to several questions in order to do this
- However, you may not have all the answers. You have to make an informed selection
- It is likely that entrepreneurs make errors in opportunity selection
- It helps to understand how to avoid errors

The aim of this chapter is to

- provide to you an exposure to range of issues relevant to final selection
- highlight common errors in opportunity selection and ways to prevent these

#### Objectives:

On completing this chapter, you will

- learn which questions you need to raise and which are critical questions in the context of final selection
- appreciate some real life cases, which enhance your understanding of the issue underlying final selection
- have an understanding of common errors in opportunity selection and
- how to protect yourself from mistakes which many entrepreneurs make



## 5.1 Questions for Selection

Once you have investigated enough, make a comprehensive comparison of the opportunities. This means that for each option of an opportunity, you ask and answer a series of questions. These questions are listed below.

### ***PRODUCT/ SERVICE : QUESTION S FOR FINAL SELECTION***

1. Is the product /service an established idea or an innovative one ?
2. Does the project-cost match your investment preparedness ?
3. Is the technical know-how a critical element ?
4. If yes, how easy or difficult it is to acquire ?
5. How easy or difficult it is to absorb the technology ?
6. What is the product/service-use ?
7. Who are your customers ? (e.g. industry, households)
8. What are the expected geographical boundaries of your market?
9. What is the market position in terms of size, segment and features ?
10. Is the demand year-round or seasonal?
11. How volatile is the selling price ?
12. What is the degree of competition ?
13. What is the basis of competition ? (e.g. price, quality, service, delivery schedule)
14. Is there scope for positioning your enterprise ?
15. What is the possible extent of competitive advantage/disadvantage of a new enterprise in relation to existing enterprises ?
16. What is the position in terms of existing/ likely substitutes?
17. What is the amount of initial/ regular sales-promotion effort/ expenditure required ?
18. How dependent is the project on imported inputs/export -market ?  
In what ways ?  
Technical know how? Machinery ?, Raw Material ? Market ?
19. Are the raw materials easily available ?
20. How volatile is the raw material price ?
21. Is there speculative trading in either raw material or finished goods ?
22. What location do you have in mind ?
23. How do you view location in terms of infrastructure (water, power, effluent disposal facility) commercial amenities (e.g. telecom, bank, warehousing, goods transport) and social facilities ?(e.g. housing, healthcare, education)
24. What is the profile and size of manpower requirement ? How easy or expensive it is to get it ?
25. Is the project critically dependent on some infrastructure (e.g. international air cargo space for a perishable export item? ) If so, what is the position of such infrastructure ?
26. Will the loaning agencies support it ?



27. What is the future outlook for the sector of industry to which the project belongs ?
28. Are there any cartels or other privileged groups among existing entrepreneurs, customers, raw material suppliers or knowhow suppliers ?
29. How long will it take to establish the project ?
30. What is the government policy in terms of the following ?
  - entry restriction or licensing (e.g. electronic industry)
  - technical standards and management (e.g. laws for food industry)
  - control over price and distribution of finished goods (e.g. pharmaceutical industry) control over price and distribution of raw materials (e.g. molasses)
  - excise, value-added tax, sales tax, octroi
  - subsidies and financial incentives
  - credit policy (e.g. there are occasional curbs on bank credit to many agro-industry and other projects)
31. What is the incidence of competitive advantage derived from management and / or violation of government policy in relation to the project ?

You will not have answers to all the questions under statement. But at least for some of them you might have tentative answers or impressions. Write these out. A comprehensive picture on available options will put you in a clearer frame of mind.

## 5.2 Key Issues

In the ultimate analysis, you should focus on the following key issues :

How comfortable will you be ... technology-wise ?

How easy / difficult is the market position ?

How is the profitability ? (**see Box A**)

How risky is the project, as expressed through breakeven point and sensitivity analysis ? (**see Box B**)

What is the future of the industry to which the project belongs?

How critical is the dependence on the government ? (**see Box C**)

Do the success-determinants and risk-factors match your own capabilities? Will you be able to learn the business and get a grip over it? (**see Box D**)

Do you feel enthused about it?

You must reduce your comprehensive comments to answer the above-cited questions. Superimpose on this your personal considerations, if any, and you have enough material for a final decision. It is you who has





to decide what is relevant or important. For instance there are two projects of equal merit but one, because it involves effluents, has to be located 50 kms away from your place of residence, while the other can be located only 5 kms away. A location 50 kms away would cause personal hardships to you. It can be said that when you enter the entrepreneurial field of activity, you should be prepared to face such hardships. But let us assume that you do not, given a choice, like to face such hardships. In this case, you should choose an opportunity on the basis of a consideration which some people may not find too relevant. You decide.

## BOX A

### What is Profitability?

We have said earlier that profitability is a relative concept. A trader may not consider 25% return on investment satisfactory. An existing entrepreneur might look upon this as excellent. But, how do you measure profitability?

First, **return on investment (ROI)**. Your project cost is Rs. 5 lacs. (Do not bother about loan or equity). You expect an annual profit, before interest (on term-loan) and tax, of Rs. 1.5 lacs. Your ROI is 30%.

Secondly, **gross profit on turnover** Your gross profit is computed after taking into account direct production and selling costs. Higher the gross profit percentage, better it is.

Thirdly, **gestation period**. How long, after the project start-up, will you continue to make loss or operate on breakeven basis? A small entrepreneur cannot be expected to have patience and resources for a long gestation period.

You often do not have, at 015 stage, a good estimate of the profit that you might generate. Even if you have, you are interested in turnover-investment ratio. What will be your gross income in relation to investment or project cost ? (Will it be two, three or four times the investment?) While this is not exactly a measure of profitability, small entrepreneurs are unlikely to choose a project having lesser than 3:1 turnover-investment ratio.



## BOX B

### How risky is the Project ?

First, make a qualitative assessment of your project. You are borrowing a new process, it could be risky. If you are launching a consumer product in respect of which strong brand equity exists, there is risk.

There are two financial techniques to measure the risks involved in a project. First, **breakeven point**. It is a level of project- capacity utilization at which you make neither profit nor loss. A project whose breakeven point, in terms of production capacity utilization is 80%, is riskier than one having 50% breakeven mark.

The second technique is **sensitivity analysis**. How do you do it? Ask the following questions and consider the answers to them. Suppose, the normal selling price of a product is Rs. 5 per unit. Will the project remain viable if you are forced to reduce it to, say, Rs. 4.50 per unit ? The normal expectation on production - capacity utilization, in the second year of operations, is 70%. Will it remain viable, if such capacity utilization drops to 50% ? You assess the impact of single or multiple adverse factors, in varying degrees, on the project. If there is a leeway or resilience in the project, there is little risk.

## BOX C

### The Power of Government

You are a local leader. You want to launch a large cooperative sugar mill. You will have to depend on the government for the following:

- a license to establish a sugar mill
- identifying and fixing the area from which you can procure sugarcane
- some capital or equity contribution
- loan for the project
- price at which you buy sugarcane from farmers
- price at which you will sell a certain proportion of your sugar output export/import of sugar
- purchase tax on cane and CST on sugar
- price and distribution of molasses - an important by-product.



## Box D

### Spa Vs. Organic Cosmetics

Smita is considering two projects – a spa and production/marketing of organic cosmetics. Both involve specialized know-how. Smita is a trained beautician, she has some exposure to spa therapy techniques as well as production of organic cosmetics. However, she thinks her knowledge is not adequate. There are well-known spa therapy training schools, which impart essential on-site training in a month or two and issue certificate which is widely respected for organic cosmetic production she is in touch with a technician who possesses the knowledge and has offered her technical help at a fee. The cost of spa training is not very different from the fee, which the technician would charge. However, she feels confident about the spa therapy school, given its set-up and track record. In other words, she feels confident about meeting technical demands of spa. So, she chose to set up the spa.



### 5.3 Missing the Tree for the Wood

You must guard against the danger of being influenced excessively by less relevant details. Project A and B have breakeven points of 35% and 40% respectively, the difference is insignificant and hence should not become a basis for a decision, unless the project scores completely match on other counts.

### 5.4 Unwillingness to Step Back

You have decided to make medical disposable products, based on excellent export market conditions. You have prepared a project report, your loan-application has been just sanctioned. You have given up your job and paid an advance towards the price of land. You have announced your venture to friends and relatives. The market crashes. The chances of recovery in next one year look slim. You are in a quandary. You like to think that such things happen in all businesses and the fact that the market is no longer there even before you enter the business does not bother you. At the back of your mind, there is also the fear of loss of face vis-a-vis those to whom you have announced the venture. You decide not to step back, though you are not confident about success. Such unwillingness to step back, at a stage where it is possible to do so, is a pitfall for many entrepreneurs.

#### 5.6.11 Ownership of Decision

It is essential that you own the selection of opportunity. If you are pressurized by others, your selection is faulty (**Box E**).



## BOX E

### Does Samir Own the Decision?

Bharat and Samir Gupta inherited the family oil mill business. They both felt that its long-term future was not good. They must diversify. They began a hunt for project ideas. They considered many and shortlisted the following:

- Pharmaceutical formulations
- Khandsari (open pan sugar)

They debated the pros and cons. Bharat being the elder brother his views carried greater weight. He possess excellent contacts with sugarcane-growing farmers around the ancestral village 200 kms away. The project was to be located there. The farmers encouraged Bharat and offered to contribute a part of the investment. This clinched (decided) the matter. Khandsari was selected. Samir had two major personal reservations about the project. First, a Khandsari factory is manned by almost illiterate workers and supervisors. He did not like the idea of spending the working hours among such people. Secondly, an owner has to stay at the site. Being younger, he would have to stay there in a village, away from the family among uncouth, ill- educated persons for six months in a year. Samir was averse to this too but could not speak up. He could not talk frankly to Bharat. He accepted the decision and the responsibility to manage the Khandsari factory as a partner with 50% share in profit.

Did Samir own the decision? The answer is obvious.



## 5.5 Selected Cases

How do prospective entrepreneurs arrive at the final choice? We present the following stories which cover a range of entrepreneurial behaviour on the subject.

### 5.5.1 Doraiswamy : The Options and the Choice

Doraiswamy got his M.S. from a US University in the late 1980's. On his return to India, he worked for the state industrial development corporation in Tamil Nadu for a decade. The corporation was involved in setting up many projects on a turnkey basis.

In 1990's, he decided to set up his own medium scale enterprise, involving an investment of a few crore rupees. There was no dearth of ideas. There were three which he considered in detail.

- Marble Cutting and Polishing
- Oilseed Processing Complex (emphasis on cottonseed)
- Wind Turbine Generators

Marble cutting and polishing was eventually ruled out though it was quite profitable, because Doraiswamy found it crowded with too many manufacturers /exporters. He did not feel confident about its future. Besides, it would mean relocating himself in Rajasthan. In Tamil Nadu, he has got a number of contacts. In Rajasthan he would be at a disadvantage in terms of contacts and quality of personal life.

A client of Doraiswamy had made a fortune in edible oil, particularly cottonseed oil business. Doraiswamy was quite familiar with the intricacies of the business. However, the business requires a large working capital - one has to store huge stocks. While Doraiswamy could raise the money to establish the project, he was not sure whether he could raise a large amount to meet the working capital requirement. He was banking on associates/banks for equity/ loan, but they were not too enthusiastic about oilseed processing. They looked upon it as a routine, speculative business. This influenced Doraiswamy's decision-making. Doraiswamy realised that he would also have to spend considerably on publicity since edible oil is a consumer product. This, he felt, was a risky proposal. So, he dropped the oilseed processing idea.

Wind turbine generator was the third idea. Doraiswamy had an opportunity to travel to California and watch windpower development first-hand. He was familiar with windmapping work done by the Government of India and the potential for commercialisation of wind energy. The government had also announced financial incentives for establishment of commercial windfarms. He struck a rapport with a California company willing to offer technical collaboration for production of wind turbine generators in India. The innovativeness of the idea, market potential, profitability projections, support from the US firm - all these were points in favour of the proposal. Among Indian states, Tamil



Nadu offers maximum potential for commercial windfarms. This tilted the scales completely in favour of wind turbine generators.

### **5.5.2 The story of an experienced entrepreneur**

D.G. Bajaj is the president of Industrial Chemical Works and managing director of Specific Computers Ltd. Bajaj completed his B.Sc. from Ahmedabad. He chose a low-fee American University for further studies and returned to India in early 1970s after acquiring a chemical engineering degree there. A search for a job in public/joint sector companies around Baroda, like Indian Petrochemical Corporation Ltd., Gujarat State Fertilizer Company proved futile. Bajaj then looked around for a business opportunity. He discovered that he could make H acid from an imported German intermediate in the small industry sector. He applied for a loan under the New Entrepreneur Scheme to Gujarat Industrial Investment Corporation. His unique strength was his ability to process an imported intermediate with little capital investment. The market-reaction was one of disbelief in the process and hence the product. It called for a hard struggle to break the barrier of incredibility. But Bajaj succeeded.

Bajaj did not contemplate any other business ideas. He hit upon one and got into making it. What was the basis of his identification / selection work? An eye for an unconventional idea and the confidence in own technical capability to make it work.

The H-acid business grew into a flourishing dye intermediate one. There was no looking back, once he overcame the initial problems. Fifteen years after launching the H-acid project he began looking for a new business.

### **5.5.3 Business Opportunity Selection : A Matter of Judgement and Faith**

There is Orpat Industrial Estate on the Rajkot - Morbi road in Gujarat. Odhavji Patel is the owner of this estate. He manufactures clocks under the brand name 'Ajanta'. Ajanta has reached every corner of India. Ajanta makes 20,000 clocks everyday and employs 1500 women and owns a fleet of 19 commercial vehicles to transport its work-force.

Ajanta is a story of sensing an opportunity and making it work. Patel was adopted by his childless uncle, sent up to do his B.Sc. way back in the 1940s. His ambition to join the air force did not materialise because he was married while young and hence ineligible. He became a school teacher at Morbi and remained one until he was 45. While being a teacher, he tried textile-trading and lost money due to bad debts. There was an agricultural upsurge in Saurashtra in the 1960s. Well-sinking was carried out on a large scale. So, he made diesel engines (a market-d riven opportunity approach). He got a measure of the force of competition from large units and switched over from own production to assembly of boughtout parts. But the diesel engine boom petered out. It was time to



seek a fresh pasture (look for a new project). Clocks were being made at Morbi (Existing/ anticipated industrial development approach), but on an unorganised, cottage-level basis. Mechanical clocks, requiring everyday winding, were in vogue. Patel could judge the potential for transistorized, magnet-driven clocks. (creativity or vision). He made a first lot of 2500 clocks. It turned out to be a year of bad monsoon and there was famine in Saurashtra. Absence of brand equity, weak market conditions and relatively less popular technology was a combination which drove Patel to the brink of bankruptcy. But he, along with three family members - a son, a cousin and a nephew - survived through extensive personal selling efforts. Patel has not looked back since then. What are the lessons from this in the OIS context ? First, a capacity to judge the potential of a relatively new development can bring in rich dividends. Secondly, avoid copying, if you have a better idea. Patel could have gone into manufacturing mechanical clocks like others. Thirdly, faith in your chosen business opportunity. The initial phase was so tough that any lesser man would have given up. Last, do not lose heart, if you make a mistake. Patel made two OS errors (textile and diesel engine). Learn from these if you want to hit the bull's eye (achieve success).

#### **5.5.4 Clinch Event**

Sometimes something happens which helps you decide. You meet prospective customers for a given product who declare support to you, and so your hesitation and doubt disappear. A woman- entrepreneur wanted to make optical lenses. She was worried about the technical aspects. She met a technician who offered to help her for minimum two years on a full-time basis. This helped her make up the mind.

There was a rural entrepreneur who wanted to make collapsible aluminium tubes. He met a management graduate who had done considerable work on project feasibility and was willing to assume responsibility for all non-technical functions. This was the clincher (deciding factor) . A clinching event may or may not occur. But its impact, if it does occur, in terms of final decision, is considerable.

#### Exercise

List parameters which you consider most important for selecting the project.

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## **5.6 Errors In Selection**

Errors in opportunity selection are fairly common. Business involves a considerable amount of imponderable and hence fool-proof opportunity in fact does not exist. We, therefore, would like to highlight some common errors.

### **5.6.1 'Me too' syndrome**

There are entrepreneurs who choose a given opportunity because others have taken it up and are seen to be doing well. These entrepreneurs do not undertake their own homework but rely on the success of others. They do not realise that often there is no room for too many entrepreneurs in a particular product line. One or two residential hotels in a small city do well and six new hotels spring up. As a result, all of them suffer. Besides, it also happens that one person can handle a business competently while another cannot. One man's meat is another man's poison. So an army officer makes money from transport business while a wholesale trader miserably fails in it.

### **5.6.2 Fallacy of Numbers.**

Several entrepreneurs have a weakness for making (unrealistic) income and profitability estimates. They have learned to read financial statements and understand ratios. Sometimes, ROI and such other ratios for new projects are worked out by dishonest machinery suppliers or consultants or inefficient officials in an industrial promotional organisation who put together a profile deliberately to show how impressive the profitability is. These entrepreneurs fail to recognise the fallacies of factual content and analysis on which these profitability expectations are based. They choose the project and later regret. There are hundreds of hand knitting machines lying idle in India. These machines were sold on the strength of financial calculations. The women who bought these in the hope of building a profitable business did not realise that they would exhaust the limited neighborhood clientele in a year or two and that they would have to invest energy and money in establishing marketing arrangements, if the business were to continue. So, financial calculations, in this case, occupied the foreground while market-feasibility was overlooked.

### **5.6.3 "Story of an elephant" syndrome**

There are entrepreneurs who notice merely a part of the total project reality. Some years ago, there was a rush for establishing fruit/vegetable freeze drying projects in India. This was because the technology is easy to learn and prevailing price in the international market was dramatically attractive. The entrepreneurs failed to note the extremely limited size of the world trade. The deficiency of focussing attention on the positive features of an opportunity and overlooking its negative ones or relying on unfounded optimism in relation to negative features, cause serious selection errors. There is a rush for setting up snack food business now, driven by the apparent demand. But production, distribution, brand equity, competition and such other aspects are ignored.



#### **5.6.4 Square peg in a round hole**

Entrepreneurs sometimes fail to relate the key determinants of success to their own capabilities. There is a well-known builder who has diversified into hotel, restaurant and catering business. A high order of operating, day-to-day managerial efficiency is a precondition for success in the hotel/restaurant business. Inability to organise day-to-day efficient managerial system is the major weakness of the builder. No wonder, his business has gone under.

#### **5.6.5 Undifferentiated enterprise**

A large number of small enterprises are not performing well or closing down because they are too identical. There are several similar products. The competition rests on price and the price comes down to an unprofitable level. The failure to perceive a special position as to how your enterprise will be different from the rest and build distinctive edge into the opportunity right in the beginning is a serious error. It is not sufficient that you choose a correct opportunity in the broadest sense of the term; it is equally important that you give the chosen opportunity a right distinctive shape. This is not done.

#### **5.6.6 Failure to grasp key elements of success**

There are entrepreneurs who do not realise what the real determinants of success in a given project are. They discover this much later and perhaps a bit too late. There is an entrepreneur who entered spice processing business relying on his ability to mobilise technology and marketing inputs. He did not grasp that procurement or trading instinct is a crucial deciding factor of successful performance in this business. It is this lack of ability to judge the essence of an opportunity which brings some businessmen to ruin.

The Agarwals have a trading business and a number of small factories in Calcutta for last 60 years. The Naxalite movement in the early 1970s drove them to set up a new enterprise at Indore manufacturing corrugated cardboard boxes. A less experienced and shy member of the family was put in charge of the unit. The unit did not do well. Why? Pharmaceutical, cosmetics, food, electronics, dairy - these are the customer industries for the boxes. These companies are large and have procurement systems, procedures and professional managers to carry out the systems. One needs a definite amount of sophistication, aggressiveness, style and public relation skills to sell to these companies. The family member in charge of the unit does not possess these. He does not even like the idea of hiring a person who would possess such abilities and skills.

So, the opportunity is right but the man in charge of it is wrong.



### **5.6.7 Lack of Ownership**

There are entrepreneurs who are not sufficiently involved in the enterprise which they pursue. This is particularly true in case of partnership and family owned business enterprises. One partner or family member is excited about a given opportunity, while another member only sees holes (negative points) in the idea. He either does not express his reservations or expresses them mildly and shirks the responsibility for establishing and managing. The business often fails.

### **5.6.8 Catch the First Bus**

There are individuals who are seized by a spirit of entrepreneurship. They are in a terrible hurry to set-up their enterprise. So, they grab the first or in any case one of the early ideas they come across. They do not have the patience to search for other ideas or properly analyse the opportunity they have selected. They do not have the emotional preparedness to wait. They end up grabbing a wrong opportunity.

### **5.6.9 Inaccurate Information**

There are many entrepreneurs who identify business ideas based on inaccurate, unreliable or false information. Shantaram was told by a friend that the market for copper powder is excellent. He set-up a unit making it, without realising its speculative character. Kantilal gathered from a trade source that it would cost Rs. 80 lacs to set up a 2 tonnes per day (tpd.) vegetable dehydration project. He did not go into details of the project cost. Later, he found the project would cost Rs. 125 lacs. He had already purchased land, placed order for machinery and it was too late to step back.

### **5.6.10 Ahead of Times**

A village - style restaurant in Ahmedabad did not do well in the first two years. A courier firm in a city where so many of them flourish now, wound up thirty years back. These are instances of business ahead of times.



List the three most important errors in project selection, as per your view

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What will you do – three most important things to avoid errors in selection

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### Sum up

- The final selection will be driven by the result of the prefeasibility study. However, you will judge how comfortable/enthusiastic you are about the shortlisted idea. You will also examine this with reference to major aspects of idea – technology, market, profitability, risk. If you have already made some progress – say, rented out space – and realise it is a wrong choice, it is better to step back. You need to assume responsibility for final selection. It should not occur on account of pressure, which you cannot withstand.
- Entrepreneurs make some common errors in selection. Some entrepreneurs rush in because others are setting up/have set up similar business. Some entrepreneurs are very impressed by financial or market numbers not supported by evidence and analysis. Preoccupation with one aspect of the idea rather than judging whole of it, choosing a good idea, which is bad for the entrepreneur's personal profile and failure to grasp the essence of the business idea are common errors. Some ideas are ahead of the times. Some entrepreneurs are impatient and choose the earliest available idea.